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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Xincheng China Power Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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# POWER XINCHEN

## 新 晨 动 力

### XINCHEN CHINA POWER HOLDINGS LIMITED

### 新 晨 中 國 動 力 控 股 有 限 公 司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1148)**

## VERY SUBSTANTIAL DISPOSAL – DISPOSAL OF ASSETS AND VERY SUBSTANTIAL ACQUISITION – LEASE-BACK ARRANGEMENT OF ASSETS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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Capitalised terms used in this cover have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 6 to 20 of this circular. A notice convening the Extraordinary General Meeting to be held at Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Friday, 12 August 2022 at 9:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the office of the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting (as the case may be) should you so wish.

#### PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

In view of the pandemic of COVID-19, the following precautionary measures will be implemented at the Extraordinary General Meeting (or any adjournment thereof) to protect the Shareholders from the risk of infection (please refer to Note 7 to the Notice of Extraordinary General Meeting set out on pages EGM-3 to EGM-4 of this circular for details):

- **compulsory body temperature check and submission of health declaration form**
- **compulsory wearing of surgical face mask**
- **no provision of refreshment and drinks and no distribution of gift**

**Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. Shareholders may appoint the Chairman of the meeting as their proxy to vote on the relevant resolution at the meeting instead of attending the meeting in person.**

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## CONTENTS

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|   | <i>Page</i> |
|---|-------------|
| <b>Definitions</b> .....  | 1           |
| <b>Letter from the Board</b> .....  | 6           |
| <b>Appendix I – Financial information of the Group</b> .....                      | I-1         |
| <b>Appendix II – Unaudited pro forma financial information of the Group</b> ..... | II-1        |
| <b>Appendix III – Valuation report of the Disposed Assets</b> .....               | III-1       |
| <b>Appendix IV – General information</b> .....                                    | IV-1        |
| <b>Notice of the Extraordinary General Meeting</b> .....                          | EGM-1       |

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## DEFINITIONS

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*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

|                            |   |
|----------------------------|---|
| “Asset Purchase Agreement” | the Original AP Agreement, as supplemented and revised by the Supplementary Agreement;  |
| “Assigned Contracts”       | the agreements, contracts, other similar arrangements of every kind entered into by the Sellers in connection with the operation of, among others, the production lines, supporting equipment and facilities relating to the production of crankshaft and connecting rod owned by the Sellers and the rights under such agreements, contracts and other similar arrangements; |
| “BBA”                      | BMW Brilliance Automotive Ltd.* (華晨寶馬汽車有限公司), a sino-foreign equity joint venture company incorporated in the PRC which is owned as to 25% by Shenyang Jinbei Automotive Industry Holdings Co., Ltd.* (瀋陽金杯汽車工業控股有限公司)(an indirect wholly-owned subsidiary of Brilliance China) and 75% by BMW Holdings B.V.;   |
| “BMW AG”                   | Bayerische Motoren Werke Aktiengesellschaft;  |
| “Board”                    | the board of Directors;   |
| “Brilliance China”         | Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司*), a company incorporated in Bermuda, whose shares are listed on the Main Board of the Stock Exchange, and a controlling shareholder of the Company;   |
| “Business Day”             | any day on which commercial banks within the PRC are generally open for normal business;  |
| “Closing”                  | closing of the Disposal in accordance with the Asset Purchase Agreement;  |
| “Closing Date”             | the date on which Closing occurs;   |
| “Company”                  | Xinchen China Power Holdings Limited (新晨中國動力控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange;  |

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## DEFINITIONS

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|---------------------------------|---|
| “controlling shareholder(s)”    | has the meaning ascribed to it in the Listing Rules;  |
| “Director(s)”                   | the director(s) of the Company;   |
| “Disposal”                      | the disposal of the Disposed Assets by the Sellers to BBA;  |
| “Disposed Assets”               | production lines, supporting equipment and facilities relating to the production of crankshaft and connecting rod owned by Mianyang Xincheng and Shenyang Xincheng, together with all rights, title, and interest in and to, among others, the Assigned Contracts and the intellectual property pertaining to the Sellers’ operations of their crankshaft and connecting rod business. For the avoidance of doubt, the land use right and property ownership of buildings owned by Shenyang Xincheng relating to the production of crankshaft and connecting rod which form part of the assets mortgaged in favour of BBA as security for the Loan are not included in the Disposed Assets; |
| “Extraordinary General Meeting” | the extraordinary general meeting of the Company to be convened and held at Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Friday, 12 August 2022 at 9:00 a.m. for considering and, if thought fit, approving, among other things, the Asset Purchase Agreement, the Lease Agreement and the transactions contemplated thereunder;  |
| “Group”                         | the Company and its subsidiaries;   |
| “HKFRS”                         | Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;  |
| “Hong Kong”                     | the Hong Kong Special Administrative Region of the People’s Republic of China;  |
| “Latest Practicable Date”       | 20 July 2022, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular;   |
| “Lease Agreement”               | the equipment lease agreement (設備租賃協議) dated 25 May 2022 and entered into between BBA as lessor and Shenyang Xincheng as lessee in relation to the lease of the Disposed Assets;  |

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## DEFINITIONS

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|---------------------------------------|---|
| “Listing Rules”                       | the Rules Governing the Listing of Securities on the Stock Exchange;  |
| “Loan”                                | the secured interest-bearing loan in the principal amount of RMB500 million advanced by BBA to the Sellers pursuant to the Support Agreement;   |
| “Long-term Supply Contracts”          | collectively: (i) the purchase agreement for finished crankshafts entered into between BBA and Mianyang Xincheng on 21 January 2015, pursuant to which BBA has agreed to purchase and Mianyang Xincheng has agreed to sell finished crankshafts which are to be produced by using the Disposed Assets and for the sole purpose of supplying to BBA for its assembly of N20 engines and Bx8 engines, as extended from time to time; and (ii) the contractual documents in relation to the supply of “B48 Extra 30u Conrod” connecting rods by Mianyang Xincheng (Shenyang Branch) to BBA (including without limitation the BMW Group International Terms and Conditions for the Purchase of Production Materials and Automotive Components, Framework Agreement for Supply to BMW Brilliance Automotive Ltd., Warranty Agreement and Series Orders) executed by Mianyang Xincheng (Shenyang Branch) and BBA dated 4 August 2014; |
| “Material Adverse Effect”             | a material adverse effect on the Disposed Assets, the value of the Disposed Assets or the transactions contemplated by the Asset Purchase Agreement;  |
| “Mianyang Xincheng”                   | Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司)(including its branches), a company incorporated in the PRC and a wholly-owned subsidiary of the Company;   |
| “Mianyang Xincheng (Shenyang Branch)” | Mianyang Xincheng Engine Co., Ltd. Shenyang Branch* (綿陽新晨動力機械有限公司瀋陽分公司), the branch company of Mianyang Xincheng established in Shenyang, Liaoning, the PRC;  |

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## DEFINITIONS

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|                             |   |
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| “New Supply Contracts”      | the Original Supply Contracts, as amended by the novation agreement entered between the Sellers and BBA on 10 February 2022 in respect of the Original Supply Contracts, pursuant to which Shenyang Xincheng shall undertake all the rights, obligations and liabilities in place of Mianyang Xincheng and Mianyang Xincheng (Shenyang Branch) respectively, and be bound by the entire terms and conditions of the Original Supply Contracts as of 10 February 2022 (unless otherwise provided in such agreement); |
| “Original AP Agreement”     | the conditional original asset purchase agreement (資產購買協議) dated 25 May 2022 and entered into between the Sellers as vendors and BBA as purchaser in relation to the Disposal, which was required by the Shenyang Asset Exchange to be signed between the Sellers and BBA in its prescribed standard form applicable to all asset transfers of similar kind effected through the Shenyang Asset Exchange;   |
| “Original Supply Contracts” | collectively: (i) the Long-term Supply Contracts; and (ii) the raw materials supply agreement entered into by and between Mianyang Xincheng and BBA on 21 January 2015 and/or the sales agreement on parts to be used for production of Bx8 conrod entered into by and between Mianyang Xincheng (Shenyang Branch) and BBA in 2016;   |
| “PRC”                       | the People’s Republic of China, which, for the purposes of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;  |
| “Public Listing Process”    | the process for the proposed sale of the Disposed Assets by the Sellers at the Shenyang Asset Exchange via asset and equity exchange by public information disclosure;  |
| “Purchase Price”            | approximately RMB925.86 million, being the total purchase price which BBA shall pay to the Sellers for the Disposed Assets pursuant to the Asset Purchase Agreement;  |
| “Sellers”                   | collectively, Mianyang Xincheng, Mianyang Xincheng (Shenyang Branch) and Shenyang Xincheng;   |

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## DEFINITIONS

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|                           |   |
|---------------------------|---|
| “SFO”                     | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);  |
| “Share(s)”                | ordinary share(s) in the Company with a nominal value of HK\$0.01 each;   |
| “Shareholder(s)”          | holder(s) of Share(s);  |
| “Shenyang Asset Exchange” | Shenyang United Assets and Equity Exchange* (瀋陽聯合產權交易所);  |
| “Shenyang Xincheng”       | Xincheng Engine (Shenyang) Co., Limited* (新晨動力機械(瀋陽)有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of the Company;  |
| “Stock Exchange”          | The Stock Exchange of Hong Kong Limited;  |
| “Supplementary Agreement” | the supplementary agreement to asset purchase agreement (資產購買協議之補充協議) dated 25 May 2022 and entered into between the Sellers and BBA, which is supplementary to the Original AP Agreement and contains additional terms relating to the Disposal as agreed between the Sellers and BBA; |
| “Support Agreement”       | the support agreement (支持協議) dated 11 May 2021 between BBA and the Sellers, as supplemented and revised by a supplemental agreement thereto dated 2 July 2021;  |
| “HK\$”                    | Hong Kong dollar(s), the lawful currency of Hong Kong;  |
| “RMB”                     | Renminbi, the lawful currency of the PRC; and   |
| “%”                       | per cent.   |

\* for identification purposes only

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LETTER FROM THE BOARD

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**POWER XINCHEN**

新 晨 动 力

**XINCHEN CHINA POWER HOLDINGS LIMITED**

新 晨 中 國 動 力 控 股 有 限 公 司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1148)**

*Executive Directors:*

Mr. Wu Xiao An

*(also known as Mr. Ng Siu On)*

*(Chairman)*

Mr. Wang Yunxian *(Chief Executive Officer)*

*Non-executive Directors:*

Mr. Han Song

Mr. Yang Ming

*Independent Non-executive Directors:*

Mr. Chi Guohua

Mr. Wang Jun

Mr. Huang Haibo

*Registered office:*

Windward 3

Regatta Office Park

PO Box 1350

Grand Cayman KY1-1108

Cayman Islands

*Head office and principal*

*place of business:*

Suites 1602-05

Chater House

8 Connaught Road Central

Hong Kong

26 July 2022

*To all Shareholders*

Dear Sir/Madam,

**VERY SUBSTANTIAL DISPOSAL –  
DISPOSAL OF ASSETS  
AND  
VERY SUBSTANTIAL ACQUISITION –  
LEASE-BACK ARRANGEMENT OF ASSETS**

**INTRODUCTION**

References are made to (i) the announcement of the Company dated 11 May 2021 and the circular of the Company dated 30 July 2021 regarding, among others, the provision of the Loan by BBA to the Sellers (all of which are wholly-owned subsidiaries of the Company) and the mortgages created over the Disposed Assets by the Sellers in favour of BBA as security for,



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## LETTER FROM THE BOARD

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among others, the Loan; (ii) the announcement of the Company dated 12 April 2022 relating to, among others, the commencement of the Public Listing Process; and (iii) the announcement of the Company dated 25 May 2022 in relation to, among others, the Asset Purchase Agreement, the Lease Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among others, (i) further details of the Asset Purchase Agreement, the Lease Agreement and the transactions contemplated thereunder; (ii) financial and other information of the Group; (iii) unaudited pro forma financial information of the Group; (iv) valuation of the Disposed Assets; and (v) a notice of the Extraordinary General Meeting.

BBA has been identified as the winning bidder under the Public Listing Process and that on 25 May 2022:

- (1) the Sellers as vendors and BBA as purchaser entered into the Asset Purchase Agreement relating to, among others, the Disposal; and
- (2) BBA as lessor and Shenyang Xinchun as lessee entered into the Lease Agreement relating to, among others, the leasing back of the Disposed Assets.

### ASSET PURCHASE AGREEMENT

The principal terms of the Asset Purchase Agreement are set out below:

#### **Date**

25 May 2022

#### **Parties**

- (1) the Sellers, as vendors
- (2) BBA, as purchaser

#### **Subject matter**

On and subject to the terms and conditions of the Asset Purchase Agreement, the Sellers have agreed to sell, transfer, assign, convey and deliver to BBA and BBA has agreed to purchase, acquire and accept from the Sellers, all of the right, title and interest of the Sellers in, to and under the Disposed Assets. Although the Disposed Assets may in principle be used to produce crankshafts and connecting rods for BBA and other customers of the Group, they are used exclusively to produce for BBA.

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## LETTER FROM THE BOARD

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### **Purchase Price**

BBA's winning bid price under the Public Listing Process is approximately RMB819.35 million, which is equal to the appraised value of the Disposed Assets as at 30 June 2021 according to the asset appraisal conducted by a PRC qualified valuer on replacement cost approach. The Purchase Price is approximately RMB925.86 million, which is based on the winning bid price and taking into account value added tax of approximately RMB106.51 million.

Subject to the satisfaction or waiver in writing by BBA of all the conditions as mentioned in the paragraph headed "Letter from the Board-Asset Purchase Agreement – Conditions" in this circular, within ten (10) Business Days after the Asset Purchase Agreement takes effect, BBA agrees to pay to the Sellers the Purchase Price.

The parties agree that the deposit of approximately RMB163.86 million already paid by BBA to the Shenyang Asset Exchange shall be directly converted into a part of the Purchase Price to be paid by BBA on a dollar-for-dollar basis, and the outstanding principal amount of the Loan in the sum of RMB500.00 million shall be converted into a part of the Purchase Price to be paid by BBA on a dollar-for-dollar basis. BBA shall pay only the balance of the Purchase Price of approximately RMB262.00 million in cash after deducting the two sums mentioned above.

As the prerequisite for the payment of the balance of the Purchase Price by BBA, the related interest accrued on the Loan (calculated until the date of actual payment of the balance of the Purchase Price by BBA) shall be paid to BBA five (5) Business Days prior to the date of actual payment of the balance of the Purchase Price by BBA as agreed in the Asset Purchase Agreement.

The Directors (including the independent non-executive Directors) consider that the Purchase Price is fair and reasonable and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

### **Conditions**

The obligations of BBA to pay the Purchase Price shall be subject to the satisfaction, prior to or on the payment date, of the following conditions, unless such conditions (other than those set out in sub-paragraph (a) and (b) below) are waived in writing by BBA:

- (a) approval by the Shareholders at general meeting of the Disposal, and provision by the Sellers to BBA of a certified copy of the relevant resolution passed by the Shareholders at the general meeting;
- (b) approval by the state-owned assets supervision and administration authority having jurisdiction over the Sellers of the Disposal, and provision by the Sellers to BBA of a certified copy of such approval;

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## LETTER FROM THE BOARD

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- (c) resolutions by the highest authority of the Sellers approving the Disposal, and provision by the Sellers to BBA of certified copies of such resolutions;
- (d) issuance by the Shenyang Asset Exchange to BBA of the Notice of Award/Notice of Preferred Result, confirming that BBA is identified as the purchaser of the Disposed Assets in the Public Listing Process;
- (e) execution by the Sellers and BBA, and effectiveness, of the Asset Purchase Agreement;
- (f) the Sellers having procured the consents of all relevant third parties, in each case, in respect of the sale and purchase of the Disposed Assets;
- (g) Mianyang Xinchun having completed the duty payment for the duty exempt imported equipment listed in the Asset Purchase Agreement, which are under the supervision of the General Administration of Customs of the PRC (including its predecessors and successors and any of their respective provincial or local branches) (the “**Customs**”) on the date of the Asset Purchase Agreement, and removed the restrictions imposed by the Customs on the transfer of the imported equipment of the Disposed Assets;
- (h) Mianyang Xinchun as lessor and Shenyang Xinchun as lessee having entered into an agreement to terminate the lease of crankshaft production line, and Mianyang Xinchun (Shenyang Branch) as lessor and Shenyang Xinchun as lessee having entered into an agreement to terminate the lease of connecting rods production line. The termination under each of the aforementioned agreements will take effect from the Closing Date;
- (i) BBA and Shenyang Xinchun having entered into the Lease Agreement;
- (j) the Sellers having provided to BBA the photocopies of reasonably sufficient documents (purchase contract, invoices and payment vouchers categorized per asset, to the extent available) and the financial book entry confirming the ownership of major domestically purchased fixed assets which are part of the Disposed Assets each with a book value over RMB100,000;
- (k) the Sellers’ representations and warranties set forth in the Asset Purchase Agreement being true and correct in all material respects;
- (l) the Sellers having performed and complied with all of their covenants required to be performed under the Asset Purchase Agreement in all material respects;
- (m) since the date of the Asset Purchase Agreement, no event or circumstance having arisen or occurred which has had or could reasonably be expected to have a Material Adverse Effect;

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## LETTER FROM THE BOARD

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- (n) no action, suit, or proceeding being pending or threatened before any court or quasi-judicial or administrative agency of any state, local, or foreign jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (A) prevent consummation of any of the transactions contemplated by the Asset Purchase Agreement, (B) cause any of the transactions contemplated by the Asset Purchase Agreement to be rescinded following consummation, (C) affect materially and adversely the right of BBA to own the Disposed Assets, or (D) affect materially and adversely the right of BBA to operate the relevant business as a result of such acquisition of the Disposed Assets (and no such injunction, judgment, order, decree, ruling, or charge being in effect);
- (o) the result of asset checking by BBA not having Material Adverse Effect;
- (p) other conditions mutually agreed among the Sellers and BBA to BBA's payment of the Purchase Price;
- (q) the Sellers having submitted a confirmation letter to BBA, indicating that the conditions set out in sub-paragraphs (a) to (p) above have been satisfied in all respects;
- (r) all internal and external approvals in connection with the entry into the Supplementary Agreement having been obtained by the Sellers, and the Sellers having provided BBA with certified copy of such approvals, the contents of which are satisfactory to BBA;
- (s) the Supplementary Agreement having been signed and entered into force;
- (t) Shenyang Xinchun having opened a special bank account to receive the Purchase Price, and Shenyang Xinchun, BBA and the bank having entered into an account escrow agreement in form and substance satisfactory to BBA; and
- (u) the Sellers having provided BBA with a written plan to use the Purchase Price.

As at the Latest Practicable Date, no other conditions had been mutually agreed among the Sellers and BBA under sub-paragraph (p) above.

As at the Latest Practicable Date, the condition set out in sub-paragraph (i) above had been fulfilled and none of the conditions set out above which is waivable by BBA had been waived.

If the above conditions fail to be satisfied (or, where applicable, waived in writing by BBA) within ten (10) Business Days following the effective date of the Asset Purchase Agreement, BBA shall have the right to unilaterally rescind the Asset Purchase Agreement immediately or extend the said period by giving a written notice to the Sellers.

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## LETTER FROM THE BOARD

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### **Closing**

Closing shall take place on the fifth Business Day following the payment date of the Purchase Price or such other date as the Sellers and BBA may mutually determine.

Except with respect to the Assigned Contracts, the title to, and risk in, each of the Disposed Assets shall pass to BBA on Closing. The Sellers and BBA agree that the Assigned Contracts shall not be actually transferred to BBA upon Closing, but the Sellers shall continue to perform the Assigned Contracts in accordance with normal and reasonable commercial standards, and the Sellers agree that BBA shall have the right to notify the Sellers of the actual transfer of the Assigned Contracts to BBA at any time after the Closing Date, at which time the Sellers shall unconditionally cooperate and obtain the consent of third parties to the transfer. Until the date of actual transfer, all obligations and liabilities in connection with the Assigned Contracts shall be performed and assumed by the Sellers. The reason for not requiring the transfer of the Assigned Contracts to BBA at Closing is that the Assigned Contracts are in connection with the operation of, among others, the Disposed Assets. The Sellers remaining as the parties to the Assigned Contracts will ensure the continuation of the production of crankshafts and connecting rods by the Sellers using the Disposed Assets at the premises of the Sellers. In the unlikely event that BBA requests the actual transfer of the Assigned Contracts to it, the Company does not expect any significant impact on the Group's operation involving the Disposed Assets as the Group will be prepared to sign a set of new Assigned Contracts with the counterparties thereto to replace those transferred to BBA notwithstanding that the new Assigned Contracts will be in relation to the Disposed Assets already disposed to BBA because the Sellers are the lessee of the Disposed Assets which are located at the premises of the Sellers.

### **Restrictions after the transfer of the Disposed Assets**

After the transfer of the Disposed Assets pursuant to the Asset Purchase Agreement:

- (a) BBA will lease the Disposed Assets to Shenyang Xinchun in accordance with the Lease Agreement for Shenyang Xinchun to operate the Disposed Assets;
- (b) any sale, transfer, pledge, mortgage or other disposal of the Disposed Assets by BBA shall be subject to prior written approval of Mianyang Xinchun; and
- (c) in case of bankruptcy of BBA, mortgage or major asset change related to the Disposed Assets, Mianyang Xinchun shall be entitled to pre-emptive rights over the Disposed Assets at the same price and on the same conditions as offered by other purchasers.

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## LETTER FROM THE BOARD

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### Termination

- (a) If within ten (10) Business Days following the satisfaction or waiver in writing by BBA of all the conditions set out in the paragraph headed “Letter from the Board-Asset Purchase Agreement – Conditions” in this circular, BBA fails to pay to the Sellers the Purchase Price, then, but without prejudice to any other rights or remedies available to the Sellers, the Sellers shall give a notice to the Purchaser asking the Purchaser to cure the breach within a period of twenty (20) Business Days. In the event such breach is not cured within such period the Sellers may, without any liability to BBA, elect not to complete the sale of the Disposed Assets by giving written notice to BBA.
- (b) If before the Closing Date:
- (i) any of the Sellers is in breach of any representations and warranties set forth in the Asset Purchase Agreement and such breach would or could be reasonably expected to have a Material Adverse Effect; or
  - (ii) any of the Sellers is in breach of any obligation on its part under the Asset Purchase Agreement and (1) such breach would or could be reasonably expected to have a Material Adverse Effect and (2) where that breach is capable of remedy, such breach is not remedied to the satisfaction of BBA,
- then, but without prejudice to any other rights or remedies available to BBA, BBA shall give a notice to the Sellers asking the Sellers to cure the breach within a period of twenty (20) Business Days. In the event such breach is not cured within such period, BBA may, without any liability to the Sellers, elect not to complete the purchase of the Disposed Assets by giving written notice to the Sellers.
- (c) The Sellers and BBA may terminate the Asset Purchase Agreement by mutual written consent at any time prior to Closing.

No matter how the Asset Purchase Agreement is terminated, if BBA has paid to the Sellers any part of the Purchase Price, the Sellers shall return to BBA the amount already paid plus interest (calculated based on the yearly rate of 4.6%) within 10 days after the termination of the Asset Purchase Agreement. Otherwise, BBA shall have the right to set off the corresponding amount against the amount payable to any of the Sellers under any contract, without the consent of the Sellers.

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## LETTER FROM THE BOARD

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### **Force majeure**

If, for reasons which are not foreseeable, unavoidable and which are beyond the control of the party concerned, such as riot, strike, act of God or change of law, it becomes impossible for a party to perform or observe its obligations hereunder (“**Force Majeure**”), then the party concerned shall be excused for its non-performance or non-observance during the duration of the Force Majeure. Such party shall immediately notify such event of Force Majeure in writing to the other parties, and shall provide to the other parties proof of the existence and past and expected duration of adverse impact of the event issued by an official organ in the region within thirty (30) days after the occurrence of such Force Majeure event. In the event of Force Majeure, the parties shall promptly consult to decide whether and how to proceed with the performance of the Asset Purchase Agreement. Should the obligation which cannot be performed or observed by a party by reason of the Force Majeure constitute a material obligation considering the Asset Purchase Agreement as a whole causing the non-performance or non-observance to continue for a period exceeding six (6) months, then any of the other parties shall have the right to terminate the Asset Purchase Agreement and any other agreements entered into in relation thereto immediately.

### **Effectiveness**

The Asset Purchase Agreement shall come into effect upon approval of the Disposal by the Shareholders at general meeting and the affixation of the signature and seal by the Sellers and BBA to the Asset Purchase Agreement.

### **LEASE AGREEMENT**

The principal terms of the Lease Agreement are set out below:

#### **Date**

25 May 2022

#### **Parties**

- (1) BBA, as lessor
- (2) Shenyang Xinchun, as lessee

#### **Subject matter**

On the terms of the Lease Agreement, BBA have agreed to lease to Shenyang Xinchun the Disposed Assets for its production of crankshafts and connecting rods in accordance with the New Supply Contracts.

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## LETTER FROM THE BOARD

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### **Term**

Sixty-six months, commencing on the Closing Date.

If Shenyang Xincheng wishes to continue to lease the Disposed Assets after the expiry of the term, it shall submit a written request to BBA twelve months before the expiry of the term for renewal. If BBA agrees to renew the lease under the Lease Agreement, BBA and Shenyang Xincheng shall sign either a new equipment lease agreement or a supplementary agreement to the Lease Agreement.

Under the Lease Agreement, Shenyang Xincheng does not have any right or option to acquire the Disposed Assets at the expiry of the term of the lease.

### **Rent**

RMB930.26 million in total, payable monthly.

The rent was determined with reference to the Purchase Price plus the related taxes and duties payable and transaction costs incurred by BBA in connection with the Disposal and considering the total amount of depreciation in value of the Disposed Assets on the accounts of BBA, on the basis of the total acquisition costs incurred by BBA of RMB930.26 million and the full depreciation of the Disposed Assets at the end of the lease term.

Assuming that the Disposal would not happen, the Company expects that the value of the Disposed Assets will also have been written down to zero by the end of the lease term due to its full depreciation over its expected useful life.

The Directors (including the independent non-executive Directors) consider that the rent is fair and reasonable and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

### **Early termination**

If Shenyang Xincheng fails to perform any obligations under the New Supply Contracts, BBA shall be entitled to give Shenyang Xincheng an advance written notice of 30 working days to terminate the Lease Agreement.

In the following circumstances, BBA or Shenyang Xincheng shall have the right to notify the other party 10 working days in advance to terminate the Lease Agreement:

- (a) where the other party has committed a material breach of the Lease Agreement, and it still fails to perform its obligations or rectify such breach within a reasonable time after being demanded by such party; or where the breach of the other party makes such party completely unable to achieve the purpose of the Lease Agreement;



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## LETTER FROM THE BOARD

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- (b) where the other party is ordered to suspend its business or has its business licence revoked by the relevant competent authority;
- (c) where the other party applies for bankruptcy, dissolution, liquidation or similar judicial proceedings by itself or by a third party; or
- (d) where the Lease Agreement cannot be performed for a period reaching one month due to force majeure.

Where the New Supply Contracts expire or are early terminated, the Lease Agreement shall expire or be early terminated at the same time without affecting BBA's right to claim against Shenyang Xincheng for breach of the Lease Agreement.

### **REASONS FOR AND BENEFITS OF ENTERING INTO THE ASSET PURCHASE AGREEMENT AND THE LEASE AGREEMENT**

The Company is an investment holding company and is the holding company of the Group. The Group is principally engaged in the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of passenger vehicles in the PRC. The Sellers are wholly-owned subsidiaries of the Company with business operations in the PRC.

As a means of improving the liquidity of the Group and raising fund for repayment of the Loan, the Group has been looking for a suitable buyer to purchase the Disposed Assets at a reasonable price through a public auction. BBA has just been identified as the highest bidder in the Public Listing Process who is willing to pay a price which the Directors consider fair and reasonable. Apart from the Disposal, the Group has explored other means to finance the repayment of the Loan. The Group has approached various banks in the PRC for financing. Although the liabilities to assets ratio of the Company is not high, given that the percentage of current liabilities to current assets of the Company on a consolidated basis is relatively high, coupled with the lack of suitable available assets that may be given as security, the Group has only been able to obtain a total sum of further bank borrowings which is far from sufficient to repay the Loan in full.

The Company considers the transactions to be beneficial to the Group as the Group could fully repay the Loan and obtain additional working capital to support its business activities, capital expenditure and repayment of certain other loans while at the same time maintaining the operation rights over the crankshaft and connecting rod production lines by leasing them back from BBA, which continues to generate cash flow to the Group. The Directors are of the view that the Disposal represents a good opportunity for the Group to realize its investment in its assets to enable it to deploy its resources in a more efficient manner.

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## LETTER FROM THE BOARD

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The Disposed Assets mainly consist of two crankshaft production lines and one connecting rod production line together with their supporting equipment and facilities. The production lines are located at the Group's production plants in Mianyang, Sichuan Province and Shenyang, Liaoning Province, with a total unaudited book value of approximately RMB633.52 million as at 31 December 2021 and an appraised value of approximately RMB819.35 million as at 30 June 2021. The crankshafts and connecting rods produced using the Disposed Assets are among the major products of the Group. At present, the Group owns four crankshaft production lines and two connecting rod production lines. After the Disposal, the Group will own two crankshaft production lines and one connecting rod production line used to manufacture products for the other customers of the Group than BBA. The Directors consider that the lease-back arrangement under the Lease Agreement serves to ensure that the Group's operation of the crankshaft production lines and the connecting rod production line comprised in the Disposed Assets will not be affected by the Disposal as the Group will, after the Disposal, be able to continue to use the Disposed Assets in its operation in the same manner before the Disposal.

Having considered the above, the Directors consider that the Asset Purchase Agreement (including the Supplementary Agreement), the Lease Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and on normal commercial terms and that the terms of the Asset Purchase Agreement (including the Supplementary Agreement) and the Lease Agreement are fair and reasonable.

### INFORMATION OF THE PARTIES INVOLVED

#### **The Group**

The Group is principally engaged in the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of passenger vehicles in the PRC.

#### **Mianyang Xinchun**

Mianyang Xinchun is an indirect wholly-owned subsidiary of the Company, which was established in the PRC with limited liability on 23 March 1998 and is principally engaged in the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles.

#### **Mianyang Xinchun (Shenyang Branch)**

Mianyang Xinchun (Shenyang Branch) is the branch company of Mianyang Xinchun established in Shenyang, Liaoning, the PRC.

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## LETTER FROM THE BOARD

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### **Shenyang Xincheng**

Shenyang Xincheng is an indirect wholly-owned subsidiary of the Company, which was established in the PRC with limited liability on 22 October 2008 and is principally engaged in the development and manufacture of automotive engines, parts and components.

### **BBA**

BBA is a sino-foreign equity joint venture company incorporated in the PRC and as at the Latest Practicable Date was owned as to 25% by Shenyang Jinbei Industry Holdings Co., Ltd.\* (瀋陽金杯汽車工業控股有限公司), an indirect wholly-owned subsidiary of Brilliance China, and 75% by BMW Holding B.V. To the best knowledge, information and belief of the Directors, BMW Holding B.V. is an indirect subsidiary of BMW AG, a German multinational company which produces automobiles and motorcycles and is listed on the Frankfurt Stock Exchange.

Save as disclosed in this section “Letter from the Board” of this circular, BBA and its ultimate controlling shareholder(s) are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

### **FINANCIAL IMPLICATIONS AND USE OF PROCEEDS FROM THE DISPOSAL**

As a result of the Disposal, the Directors expect that the Group will record a gain on the Disposal of approximately RMB7.40 million, being the difference between the consideration from the Disposal of approximately RMB925.86 million, the total unaudited net book value of the Disposed Assets of approximately RMB633.52 million as at 31 December 2021, the value added tax of approximately RMB106.51 million, other miscellaneous taxes of approximately RMB12.78 million, other transaction cost of approximately RMB0.98 million incurred and the leaseback effect of the lease under the Lease Agreement of approximately RMB164.67 million (*Note*).

Based on the unaudited net book value of the Disposed Assets of approximately RMB633.52 million as at 31 December 2021, the Purchase Price represents an excess of approximately RMB292.34 million over the above unaudited net book value of the Disposed Assets while the total rent payable under the Lease Agreement represents an excess of approximately RMB296.74 million over the above unaudited net book value of the Disposed Assets.

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## LETTER FROM THE BOARD

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As disclosed in the paragraph headed “Letter from the Board – Asset Purchase Agreement – Purchase Price” in this circular, the Group will receive a sum of approximately RMB425.86 million, being the Purchase Price less the principal amount of the Loan in the sum of RMB500.00 million. The net proceeds from the Disposal (after deducting value added tax, other miscellaneous taxes and other transaction cost) are approximately RMB305.59 million. The Group intends to use such net proceeds of RMB100.00 million as general working capital of the Group and, in accordance with the decisions of the Board to be made having regard to the funding need and circumstances subsisting from time to time, the remaining of approximately RMB205.59 million for the capital expenditure on hybrid engines development including the range extender and other engine components business development plus repayment of certain other loans of the Group.

*Note:* According to HKFRS 16, if the transfer of an asset by the Group as a seller-lessee satisfies the requirements of HKFRS 15 accounted for as a sale of the asset, the Group shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Accordingly, the Group shall recognise only the amount of any gain or loss that relates to the rights transferred to BBA as a buyer-lessor. Thus, the Group measures the right-of-use asset retained through the leaseback of the Disposed Assets as a proportion of the carrying amount and recognise the portion of the gain on the Disposal that relates to the rights transferred to BBA.

### LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Disposal is higher than 75%, the Asset Purchase Agreement and the transactions contemplated thereunder constitute a very substantial disposal for the Company and are subject to the reporting, announcement and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

According to HKFRS 16, the Company will recognize the lease of the Disposed Assets under the Lease Agreement as a right-of-use asset in the sum of approximately RMB561.39 million (subject to adjustment based on, among others, the applicable discount rate) which shall be the present value of the total rent. The recognition of such a right-of-use asset will be regarded as an acquisition of asset under Rule 14.04(1)(a) of the Listing Rules. As the highest applicable percentage ratio in respect of the lease of the Disposed Assets under the Lease Agreement is higher than 100%, the Lease Agreement and the transactions contemplated thereunder constitute a very substantial acquisition for the Company and are subject to the reporting, announcement and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

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## LETTER FROM THE BOARD

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### EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting at which ordinary resolution will be proposed to consider and, if thought fit, to approve the Asset Purchase Agreement, the Lease Agreement and the transactions contemplated thereunder to be held at Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Friday, 12 August 2022 at 9:00 a.m., is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting (as the case may be) should you so wish.

In accordance with the requirements of the Listing Rules, the resolution to be put forward at the Extraordinary General Meeting will be voted on by the Shareholders by way of poll.

As at the Latest Practicable Date, Mr. Wu Xiao An, an executive Director and chairman of the Company, was a director of BBA. He was interested and deemed to be interested in an aggregate of 42,313,426 Shares, representing approximately 3.30% of the issued share capital of the Company, as at the Latest Practicable Date. Mr. Wu Xiao An and his close associates (as defined in the Listing Rules) will abstain from voting on the ordinary resolution to be proposed at the Extraordinary General Meeting in respect of the Asset Purchase Agreement, the Lease Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, to the best knowledge of the Directors, Mr. Wu Xiao An and his close associates were interested in a total of 42,313,426 Shares, representing approximately 3.30% of the issued share capital of the Company.

### RECOMMENDATION

The Directors (including the independent non-executive Directors) believe that the Asset Purchase Agreement, the Lease Agreement and the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Directors (including the independent non-executive Directors) recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Asset Purchase Agreement, the Lease Agreement and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this circular.

Yours faithfully,  
By order of the Board  
**Xinchen China Power Holdings Limited**  
**Wu Xiao An**  
(also known as Ng Siu On)  
*Chairman*

\* *for identification purposes only*

**1. FINANCIAL INFORMATION OF THE GROUP**

Details of the financial information of the Group for the three financial years ended 31 December 2019, 2020 and 2021 are set out in the Company's annual reports for the year ended 31 December 2019 (from pages 65 to 134), for the year ended 31 December 2020 (from pages 69 to 136) and for the year ended 31 December 2021 (from pages 69 to 142) respectively.

All the above annual reports of the Company have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company ([www.xinchenpower.com](http://www.xinchenpower.com)).

**2. INDEBTEDNESS STATEMENT**

As at the close of business on 31 May 2022, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had total indebtedness of approximately RMB1,159,251,000 as summarized below:

**Borrowings**

The Group had total outstanding borrowings of approximately RMB1,155,730,000, further details of which are set out below:

- (1) bank borrowings of the Group with the total amount of approximately RMB585,730,000, of which approximately RMB199,910,000 were unsecured but guaranteed, and approximately RMB385,820,000 were secured by property, plant and equipment, prepaid lease payment and receivables of the Group; and
- (2) other borrowings of the Group with total amount of approximately RMB570,000,000 of which approximately RMB70,000,000 were unsecured but guaranteed, and approximately RMB500,000,000 were secured by property, plant and equipment and prepaid lease payment of the Group.

**Pledge of assets**

The Group had total outstanding borrowings of approximately RMB885,820,000 which were secured by property, plant and equipment, prepaid lease payment and receivables of the Group. The carrying amount of the pledged assets amounted to approximately RMB1,060,154,000.

**Lease liabilities**

The Group had total outstanding lease liabilities of approximately RMB3,521,000, of which approximately RMB2,205,000 are due within 1 year, approximately RMB1,316,000 are due more than 1 year but not exceeding 2 years, approximately nil are due more than 2 years but not exceeding 5 years.

Save as aforesaid and apart from intra-group liabilities, normal trade payables and contract liabilities in the normal course of business, at the close of business on 31 May 2022, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

**3. WORKING CAPITAL SUFFICIENCY OF THE GROUP**

The Directors are of the opinion that, after taking into account the transactions contemplated under the Asset Purchase Agreement and the Lease Agreement, the working capital available to the Group is sufficient for the Group's requirements for at least the next 12 months from the date of this circular in the absence of any unforeseen circumstances.

**4. FINANCIAL AND TRADING PROSPECT OF THE GROUP**

As set out in the annual report of the Company for the year ended 31 December 2021, the results of 2021 showed a decrease in terms of revenue and a decrease in the loss attributable to shareholders. The decrease in revenue was mainly due to the decrease in the sales of engines, despite the increase in the sales of Bx8 crankshafts. The decrease in sales of engines was due to lacklustre demand of engines from various automobile manufacturers during the year caused by the slowing economy and the pandemic. Less impairment losses of trade-related receivables incurred during the year and this resulted in less losses incurred when compared to 2020. In order to pursue a sustainable and long term business goals of the Group under the ever-changing automobile market in the PRC, the Group steers towards the market with the latest policies implemented favourably by the PRC government, in particular, the new energy vehicles ("NEV") market. Notably, the annual NEV sales rocketed over 150% year-on-year to 3.52 million units, and accounted for only about 13.3% of the country's total sales in 2021, indicating a high potential growth. This strong evidence strengthens the Group's focus on developing its NEV-compatible CE engines which are used in the range extender of the electric drive system for the next generation of NEVs. The Group strives to tap into the NEV segment by establishing stable business relationship with NEV partners in order to optimise the Group's product portfolio, putting more focus on high-end NEV products, and aiming at providing more stable return to the Shareholders.



The Group always takes into account the business environment in the PRC to be highly competitive and challenging in the years ahead. Keen competitive business environment will continue to drive the automobile related enterprises in formulating appropriate business and market strategies in response to the dynamic market situation. Meanwhile, cyclical fluctuations in the local economy will continue to cause market sentiments to be more conservative and selective. However, the PRC being the world largest automobile market, the Group is full of confidence and considers that the existing challenges can be overcome by effective strategies in the long run. The scaling down of available banking facilities, issues with trade receivables and the decrease in traditional sales add pressure to the liquidity of the Group. The Group is seeking measures to alleviate the situation including sales of fixed assets, speeding up payment by customers, striving for renewal and extension of borrowings, and looking for new investors in order to go through this hard time. The Group expects that the liquidity issue will be resolved in due course.

Despite the challenges and difficulties faced under the current market economy environment and the Covid-19 pandemics, the Group expects the PRC economy will continue to expand moderately. Rising income of the general public attributable to the sustained economic growth will inevitably encourage demands for more advanced motor vehicles and provide promising business opportunities. Looking ahead, the Group expects appropriate business strategies and the continuous economic growth in the PRC will continue to bring business opportunities to its engines and engine components businesses. In response to the dynamic and challenging market situation, the Group will continue to implement various ongoing capacity expansion programmes on a timely basis so as to cope with the growing demands from the customers. In addition, the Group will also continue to undertake technical reengineering, upgrading and integration programmes to further enhance its product quality and technical scalability so as to stay competitive in the industry.

#### **5. EFFECTS OF THE TRANSACTIONS CONTEMPLATED UNDER THE ASSET PURCHASE AGREEMENT AND THE LEASE AGREEMENT ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP**

As a result of the Disposal, the Directors expect that the Group will record a gain on the Disposal of approximately RMB7.40 million, being the difference between the consideration from the Disposal of approximately RMB925.86 million, the total unaudited net book value of the Disposed Assets of approximately RMB633.52 million as at 31 December 2021, the value added tax of approximately RMB106.51 million, other miscellaneous taxes of approximately RMB12.78 million, other transaction cost of approximately RMB0.98 million incurred and the leaseback effect of the lease under the Lease Agreement of approximately RMB164.67 million.

Upon Completion, the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position of the Group will have the following financial effects. For illustrative purpose, based on the unaudited pro forma financial information of the Group as set out in Appendix II to this circular, (i) assuming that the Disposal had been completed on 1 January 2021, the total loss of the Group would increase from RMB392,934,000 to RMB523,777,000 in 2021, and (ii) assuming that the Disposal had been completed on 31 December 2021, (a) the total assets of the Group would decrease from approximately RMB3,964,825,000 to approximately RMB3,932,094,000 as at 31 December 2021, and (b) the total liabilities of the Group would increase from approximately RMB2,174,209,000 to RMB2,272,321,000 as at 31 December 2021. For further details, please refer to the unaudited pro forma financial information of the Group as set out in Appendix II to this circular.

## **6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## **7. MANAGEMENT DISCUSSION AND ANALYSIS**

### **For the year ended 31 December 2019**

#### ***Business review***

In 2019, the Group achieved total consolidated sales of approximately RMB2,076.17 million, representing a decrease of approximately 31.9% compared to the corresponding period last year (approximately RMB3,050.52 million). The decrease was mainly due to the decrease in the sales of traditional and prince engines. The decrease in the sales of engines was due to lacklustre demand from various automobile manufacturers during the year because of the weak economic growth, trade war, and tougher emission standards introduced in last summer which delayed the purchase sentiment.

In respect of the engines business segment, the Group recorded approximately 40.4% decrease in segment revenue, from approximately RMB2,410.71 million in 2018 to approximately RMB1,437.16 million in 2019. Sales volume of engines decreased by approximately 38.9% from around 209,000 units in 2018 to around 127,500 units in 2019. The decrease was mainly due to the decrease in the sales of traditional gasoline engines, diesel engines and prince engines in 2019.

In respect of the engine components segment, the Group recorded approximately the same amount in segment revenue, from approximately RMB639.82 million in 2018 to approximately RMB639.01 million in 2019. The Group sold around 496,000 units of crankshafts in 2019, representing a decrease of approximately 2.0% from around 506,000 units in 2018. The Group sold around 514,000 units of connecting rods in 2019, down by approximately 32.6% from around 763,000 units in 2018.

The consolidated cost of sales in 2019 amounted to approximately RMB1,847.39 million, down by approximately 32.0% when compared to approximately RMB2,716.25 million recorded in 2018. The decrease in cost of sales was generally in line with the decrease in sales revenue.

The gross profit margin of the Group in 2019 was approximately 11.0% which was about the same level as in 2018.

Other gains and losses decreased from approximately RMB80.64 million in 2018 to approximately RMB19.90 million in 2019, representing a decrease of approximately 75.3%. The decrease was mainly due to lower unrealized foreign exchange translation loss and lower net loss arising on receivables measured at fair value through other comprehensive income recognized in 2019.

Selling and distribution expenses decreased by approximately 34.0%, from approximately RMB46.97 million in 2018 to approximately RMB31.01 million in 2019, representing approximately 1.5% of the revenue in 2018 and 2019, respectively. The decrease in value was mainly due to the decrease in transportation costs as fewer engines were sold during 2019.

Administrative expenses decreased by approximately 7.2%, from approximately RMB139.09 million in 2018 to approximately RMB129.05 million in 2019, representing approximately 4.6% and approximately 6.2% of the revenue in 2018 and 2019, respectively. The increase in terms of percentage was mainly due to decrease in revenue whilst staff cost, depreciation and office expenses decreased to a lesser extent.

Finance costs increased by approximately 10.0%, from approximately RMB73.97 million in 2018 to approximately RMB81.37 million in 2019. The increase was mainly due to higher interest rate in the second half of 2019 and more short term borrowings taken out.

Other expenses decreased by approximately 26.2% from approximately RMB18.25 million in 2018 to approximately RMB13.46 million in 2019, which was mainly due to the decrease in research expenses incurred in 2019.

The Group's profit before tax decreased by approximately 30.7% from approximately RMB10.77 million in 2018 to approximately RMB7.46 million in 2019.

Income tax expenses increased from approximately RMB0.05 million in 2018 to approximately RMB0.61 million in 2019. The increase was mainly due to the movement of deferred tax assets.

For the year 2019, the net income attributable to owners of the Company was approximately RMB6.85 million, representing an approximately 36.1% decrease from approximately RMB10.72 million in 2018. Basic earnings per share in 2019 amounted to approximately RMB0.005, compared to approximately RMB0.008 in 2018.

#### ***Liquidity and financial resources***

As at 31 December 2019, the Group had approximately RMB98.19 million in cash and cash equivalents (31 December 2018: RMB223.95 million), and approximately RMB261.30 million in pledged bank deposits (31 December 2018: RMB552.32 million). The Group had trade and other payables of approximately RMB1,176.14 million (31 December 2018: RMB1,938.13 million), bank borrowings due within one year in the amount of approximately RMB1,008.09 million (31 December 2018: RMB682.83 million), and bank borrowings due after one year in the amount of approximately RMB577.72 million (31 December 2018: RMB1,267.81 million).

#### ***Capital structure***

As at 31 December 2019, the Group's total assets was approximately RMB6,025.68 million (31 December 2018: RMB7,175.87 million), which was funded by the following: (1) share capital of approximately RMB10.46 million (31 December 2018: RMB10.46 million), (2) reserves of approximately RMB2,981.46 million (31 December 2018: RMB2,975.25 million) and (3) total liabilities of approximately RMB3,033.76 million (31 December 2018: RMB4,190.17 million).

#### ***Contingent liabilities***

During the year, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising cash. The Group considers that the risk of default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by reputable banks in the PRC.

#### ***Pledges of assets***

As at 31 December 2019, the Group pledged certain of its land use rights, buildings, plant and machinery with an aggregate carrying value of approximately RMB100.15 million (31 December 2018: RMB107.84 million) to certain banks to secure certain credit facilities granted to the Group.

As at 31 December 2019, the Group also pledged bank deposits in the amount of approximately RMB261.30 million (31 December 2018: RMB552.32 million) to certain banks to secure certain credit facilities granted to the Group.

#### ***Gearing ratio***

As at 31 December 2019, the debt-to-equity ratio, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 1.01 (31 December 2018: 1.41). The decrease in the debt-to-equity ratio was mainly due to the decrease in bank borrowing in 2019.

As at 31 December 2019, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 53.0% (31 December 2018: 65.3%). The decrease in gearing ratio was mainly due to the decrease in total bank borrowing as a result of the fewer financed acquisitions of property, plant and equipment during the year with bank borrowings.

#### ***Investment property***

In 2019, no portion of the Group's premises was leased during the year ended 31 December 2019 (31 December 2018: RMB3.54 million).

#### ***Foreign exchange risks***

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, bank borrowings and cash and cash equivalents, denominated in foreign currencies, such as United States Dollars ("US\$") and HK\$, the Group is exposed to foreign currency translation risk.

The Group has monitored and will continue to monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. Certain portion of US\$-denominated bank borrowing was hedged with forward contract during the year under review in order to minimize exposure to foreign exchange risk.

#### ***Employees and remuneration policy***

As at 31 December 2019, the Group employed approximately 1,445 employees (31 December 2018: approximately 1,862). Employee costs amounted to approximately RMB153.74 million for the year ended 31 December 2019 (31 December 2018: approximately RMB210.28 million). The Group will endeavour to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

***Significant investments***

On 10 May 2019, Mianyang Xincheng entered into an equity transfer agreement with Dongfeng Motor Co., Ltd. (東風汽車有限公司) (“**Dongfeng Motor**”) in relation to the disposal by Mianyang Xincheng to Dongfeng Motor of 50% of the equity interest in Changzhou Dongfeng Xincheng Engine Co., Ltd. (常州東風新晨動力機械有限公司) at the consideration of approximately RMB50.54 million. Further particulars of the above disposal are set out in the announcement of the Company dated 10 May 2019.

Save as disclosed above, there were no significant investments, material acquisitions or disposals of subsidiaries and associated companies by the Group during the year ended 31 December 2019.

***Capital commitment***

As at 31 December 2019, the Group had capital commitments of approximately RMB479.09 million (31 December 2018: RMB677.71 million), among which contracted capital commitments amounted to approximately RMB101.10 million (31 December 2018: RMB185.97 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

**For the year ended 31 December 2020*****Business review***

In 2020, the Group achieved total consolidated sales of approximately RMB1,711.96 million, representing a decrease of approximately 17.54% compared to the corresponding period last year (approximately RMB2,076.17 million). The decrease was mainly due to the decrease in the sales of engines, despite the increase in the sales of Bx8 crankshafts. As the novel coronavirus took its toll during the reporting period, the automobile industry was no exception. Despite the fact that there was rebound in sales of engines in the second half of 2020, the overall yearly decrease in sales of engines was due to lacklustre demand of engines from various automobile manufacturers during the year caused by the slowing economy and trade tensions with the United States. The increase in the sales of crankshafts was mainly due to the increase in the demand by BBA for the Group’s Bx8 crankshafts.

In respect of the engines business segment, the Group recorded approximately 36.88% decrease in segment revenue, from approximately RMB1,437.16 million in 2019 to approximately RMB907.09 million in 2020. Sales volume of engines decreased by approximately 50.75% from around 127,500 units in 2019 to around 62,800 units in 2020. The decrease was mainly due to the decrease in the sales of traditional gasoline, diesel engines and Prince Engines in 2020.

In respect of the engine components segment, the Group recorded approximately 25.95% increase in segment revenue, from approximately RMB639.01 million in 2019 to approximately RMB804.86 million in 2020. The increase was mainly due to more Bx8 crankshafts produced and supplied to BBA during the year. The Group sold around 647,000 units of crankshafts in 2020, representing an increase of approximately 30.44% from around 496,000 units in 2019. There was an increase in the demand for connecting rods, the Group sold around 991,000 units of connecting rods in 2020, up by approximately 92.80% from around 514,000 units in 2019.

The consolidated cost of sales in 2020 amounted to approximately RMB1,589.03 million, down by approximately 13.99% when compared to approximately RMB1,847.39 million recorded in 2019. The decrease in cost of sales was due to the decrease in sales revenue.

The gross profit margin of the Group decreased from approximately 11.02% in 2019 to approximately 7.18% in 2020, which was mainly due to the downward adjustment in sales price of engines while some of the fixed costs remained the same.

Impairment losses increased from approximately RMB6.11 million in 2019 to approximately RMB714.84 million in 2020. The increase was mainly due to an impairment of trade-related receivables based on the expected credit losses assessment performed by an independent qualified professional valuer.

Other gains and losses changed from approximately RMB19.90 million losses in 2019 to approximately RMB18.98 million gains in 2020. The change was mainly due to unrealized foreign exchange translation gain recognized in 2020.

Selling and distribution expenses increased by approximately 3.52%, from approximately RMB31.01 million in 2019 to approximately RMB32.10 million in 2020, representing approximately 1.49% and approximately 1.87% of the revenue in 2019 and 2020, respectively. The increase in value was mainly due to the increase in sale staff expense during 2020.

Administrative expenses increased by approximately 10.41%, from approximately RMB129.05 million in 2019 to approximately RMB142.49 million in 2020, representing approximately 6.22% and approximately 8.32% of the revenue in 2019 and 2020, respectively. The increase in terms of percentage was mainly due to increase in office expense and professional fees during the year.

Finance costs decreased by approximately 22.62%, from approximately RMB81.37 million in 2019 to approximately RMB62.97 million in 2020. The decrease was mainly due to more repayment of borrowings during the year.



Other expenses increased by approximately 19.11% from approximately RMB13.46 million in 2019 to approximately RMB16.04 million in 2020, which was mainly due to the increase in research expenses incurred in 2020.

The Group's profit before tax was approximately RMB7.46 million in 2019 whereas the Group's loss before tax was approximately RMB796.70 million in 2020.

Income tax expenses increased by approximately 1,847.63% from approximately RMB0.61 million in 2019 to approximately RMB11.94 million in 2020. The increase was mainly due to the movement of deferred tax assets.

For the year 2020, the loss attributable to owners of the Company was approximately RMB808.64 million, as compared to a net profit of approximately RMB6.85 million for the year ended 31 December 2019. Basic loss per share in 2020 amounted to approximately RMB0.631, as compared to basic earnings per share of approximately RMB0.005 in 2019.

#### ***Liquidity and financial resources***

As at 31 December 2020, the Group had approximately RMB55.29 million in cash and cash equivalents (31 December 2019: RMB98.19 million), and approximately RMB486.63 million in pledged bank deposits (31 December 2019: RMB261.30 million). The Group had trade and other payables of approximately RMB1,182.81 million (31 December 2019: RMB1,176.14 million), borrowings due within one year in the amount of approximately RMB1,067.47 million (31 December 2019: RMB1,008.09 million), and borrowings due after one year in the amount of approximately RMB320.39 million (31 December 2019: RMB577.72 million).

#### ***Capital structure***

As at 31 December 2020, the Group's total assets was approximately RMB5,006.75 million (31 December 2019: RMB6,025.68 million), which was funded by the following: (1) share capital of approximately RMB10.46 million (31 December 2019: RMB10.46 million), (2) reserves of approximately RMB2,173.09 million (31 December 2019: RMB2,981.46 million) and (3) total liabilities of approximately RMB2,823.20 million (31 December 2019: RMB3,033.76 million).

#### ***Contingent liabilities***

During the year, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising cash. The Group considers that the risk of default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by reputable banks in the PRC.



***Pledge of assets***

As at 31 December 2020, the Group pledged certain of its receivables with an aggregate gross amount, before impairment loss, of approximately RMB247.89 million (31 December 2019: RMB33.55 million) to certain banks to secure certain credit facilities granted to the Group.

As at 31 December 2020, the Group has pledged certain land use rights, buildings, plant and machinery with an aggregate carrying value of approximately RMB136.12 million (31 December 2019: RMB100.15 million) to certain banks to secure certain credit facilities granted to the Group.

As at 31 December 2020, the Group pledged bank deposits in the amount of approximately RMB486.63 million (31 December 2019: RMB261.30 million) to certain banks to secure certain credit facilities granted to the Group.

***Gearing ratio***

As at 31 December 2020, the debt-to-equity ratio, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 1.29 (31 December 2019: 1.01). The increase in the debt-to-equity ratio was mainly due to the significant decrease in reserves in 2020.

As at 31 December 2020, the gearing ratio, computed by dividing borrowings by total equity attributable to owners of the Company, was approximately 63.56% (31 December 2019: 53.00%). The increase in gearing ratio was mainly due to the decrease in reserves as a result of the significant losses incurred in 2020.

***Foreign exchange risks***

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, bank borrowings and cash and cash equivalents, denominated in foreign currencies, such as US\$ and HK\$, the Group is exposed to foreign currency translation risk.

The Group has monitored and will continue to monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. Certain portion of US\$-denominated bank borrowings was hedged with forward contracts during the year under review in order to minimize exposure to foreign exchange risk.

***Employees and remuneration policy***

As at 31 December 2020, the Group employed approximately 1,270 employees (31 December 2019: approximately 1,445 employees). Employee costs amounted to approximately RMB137.44 million for the year ended 31 December 2020 (31 December 2019: approximately RMB153.74 million). The Group will endeavour to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

***Significant investments***

There were no significant investments, material acquisitions or disposals of subsidiaries and associated companies by the Group during the year ended 31 December 2020.

***Capital commitment***

As at 31 December 2020, the Group had capital commitments of approximately RMB250.54 million (31 December 2019: RMB479.09 million), among which contracted capital commitments amounted to approximately RMB43.22 million (31 December 2019: RMB101.01 million), which is primarily related to capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

**For the year ended 31 December 2021*****Business review***

In 2021, the Group achieved total consolidated sales of approximately RMB1,462.78 million, representing a decrease of approximately 14.56% compared to 2020 (approximately RMB1,711.96 million). The decrease was mainly due to the decrease in the sales of engines, despite the increase in the sales of Bx8 crankshafts. As Covid-19 continued to take its toll during the reporting year, the automobile industry was no exception. The decrease in sales of engines was due to lacklustre demand of engines from various automobile manufacturers during the year caused by the slowing economy. The increase in the sales of crankshafts was mainly due to the increase in the demand by BBA for the Group's Bx8 crankshafts.

In respect of the engines business segment, the Group recorded approximately 44.43% decrease in segment revenue, from approximately RMB907.09 million in 2020 to approximately RMB504.09 million in 2021. Sales volume of engines decreased by approximately 33.12% from around 62,800 units in 2020 to around 42,000 units in 2021. The decrease was mainly due to the decrease in the sales of traditional gasoline, diesel engines and Prince Engines in 2021.

In respect of the engine components segment, the Group recorded approximately 19.11% increase in segment revenue, from approximately RMB804.86 million in 2020 to approximately RMB958.69 million in 2021. The increase was mainly due to more Bx8 crankshafts produced and supplied to BBA during the year. The Group sold around 693,000 units of crankshafts in 2021, representing an increase of approximately 7.11% from around 647,000 units in 2020. There was also an increase in the demand for connecting rods. The Group sold around 1,030,000 units of connecting rods in 2021, up by approximately 3.94% from around 991,000 units in 2020.

The consolidated cost of sales in 2021 amounted to approximately RMB1,386.34 million, down by approximately 12.76% when compared to approximately RMB1,589.03 million recorded in 2020. The decrease in consolidated cost of sales was due to the decrease in sales revenue.

The gross profit margin of the Group decreased from approximately 7.18% in 2020 to approximately 5.23% in 2021, which was mainly due to the downward adjustment in sales price of engines while some of the fixed costs remained the same.

Impairment losses decreased from approximately RMB714.84 million in 2020 to approximately RMB298.88 million in 2021. The decrease was mainly due to less impairment of trade-related receivables based on the expected credit losses assessment performed by an independent qualified professional valuer.

Other gains and losses decreased from gains of approximately RMB18.98 million in 2020 to approximately gains of RMB5.07 million in 2021. The decrease was mainly due to less unrealized foreign exchange translation gain recognized in 2021.

Selling and distribution expenses decreased by approximately 45.83%, from approximately RMB32.10 million in 2020 to approximately RMB17.39 million in 2021, representing approximately 1.87% and approximately 1.19% of the revenue in 2020 and 2021, respectively. The decrease in value was mainly due to the decrease in sales staff expense during 2021.

Administrative expenses increased by approximately 39.75%, from approximately RMB142.49 million in 2020 to approximately RMB199.13 million in 2021, representing approximately 8.32% and approximately 13.61% of the revenue in 2020 and 2021, respectively. The increase in terms of percentage was mainly due to increase in office expense and professional fees during the year.

Finance costs decreased by approximately 7.31%, from approximately RMB62.97 million in 2020 to approximately RMB58.37 million in 2021. The decrease was mainly due to more repayment of borrowings during the year.

Other expenses increased by approximately 3.62% from approximately RMB16.04 million in 2020 to approximately RMB16.62 million in 2021, which was mainly due to the increase in research expenses incurred in 2021.

The Group's loss before tax was approximately RMB796.70 million in 2020 whereas the Group's loss before tax was approximately RMB399.66 million in 2021.

Income tax expenses was approximately RMB11.94 million in 2020 whereas there was income tax credit of approximately RMB6.89 million in 2021. The change was mainly due to the movement of deferred tax assets.

For the year 2021, the loss attributable to owners of the Company was approximately RMB392.77 million, as compared to a net loss of approximately RMB808.64 million for the year ended 31 December 2020. Basic loss per share in 2021 amounted to approximately RMB0.306, as compared to basic loss per share of approximately RMB0.631 in 2020.

#### ***Liquidity and financial resources***

As at 31 December 2021, the Group had approximately RMB12.85 million in cash and cash equivalents (31 December 2020: RMB55.29 million), and approximately RMB250.62 million in pledged bank deposits (31 December 2020: RMB486.63 million). The Group had trade and other payables of approximately RMB822.76 million (31 December 2020: RMB1,182.81 million), borrowings due within one year in the amount of approximately RMB1,068.23 million (31 December 2020: RMB1,067.47 million), and borrowings due after one year in the amount of approximately RMB172.06 million (31 December 2020: RMB320.39 million).

#### ***Capital structure***

As at 31 December 2021, the Group's total assets was approximately RMB3,964.83 million (31 December 2020: RMB5,006.75 million), which was funded by the following: (1) share capital of approximately RMB10.46 million (31 December 2020: RMB10.46 million), (2) reserves of approximately RMB1,780.16 million (31 December 2020: RMB2,173.09 million) and (3) total liabilities of approximately RMB2,174.21 million (31 December 2020: RMB2,823.20 million).

#### ***Contingent liabilities***

During the year, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising cash. The Group considers that the risk of default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by reputable banks in the PRC.

***Pledge of assets***

As at 31 December 2021, the Group pledged certain of its receivables with an aggregate gross amount, before impairment loss, of approximately RMB82.64 million (31 December 2020: RMB247.89 million) to secure general banking facilities granted to the Group.

As at 31 December 2021, the Group has pledged certain land use rights, buildings, plant and machinery with an aggregate carrying value of approximately RMB890.14 million (31 December 2020: RMB210.35 million) to certain banks to secure general banking facilities and other borrowing granted to the Group.

As at 31 December 2021, the Group pledged bank deposits in the amount of approximately RMB250.62 million (31 December 2020: RMB486.63 million) to secure general banking facilities and other borrowing granted to the Group.

***Gearing ratio***

As at 31 December 2021, the debt-to-equity ratio, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 1.21 (31 December 2020: 1.29). The decrease in the debt-to-equity ratio was mainly due to the decrease in borrowings and payables in 2021.

As at 31 December 2021, the gearing ratio, computed by dividing borrowings by total equity attributable to owners of the Company, was approximately 69.27% (31 December 2020: 63.56%). The increase in gearing ratio was mainly due to the decrease in reserves as a result of significant losses incurred in 2021, despite decrease in borrowings as a result of continual repayment of loans in 2021.

***Foreign exchange risks***

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, bank borrowings and cash and cash equivalents, denominated in foreign currencies, such as US\$ and HK\$, the Group is exposed to foreign currency translation risk.

The Group has monitored and will continue to monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. Certain portion of US\$-denominated bank borrowings was hedged with forward contracts during the year under review in order to minimize exposure to foreign exchange risk.

***Employees and remuneration policy***

As at 31 December 2021, the Group employed approximately 1,130 employees (31 December 2020: approximately 1,270 employees). Employee costs amounted to approximately RMB127.69 million for the year ended 31 December 2021 (31 December 2020: approximately RMB137.44 million). The Group will endeavour to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

***Significant investments***

As disclosed in the Company's announcement dated 27 August 2021, Mianyang Xincheng entered into an investment agreement with Beijing CHJ Automotive Technology Co., Ltd\* (北京車和家汽車科技有限公司)(a company established in the PRC and controlled by Li Auto Inc.), an independent third party of the Company, in relation to the formation of Sichuan Li Xincheng Technology Co., Ltd\* (四川理想新晨科技有限公司) in Mianyang City, Sichuan Province, the PRC. The joint venture company shall principally engage in the manufacture, research and development, sales, provision of after-sales services of range extender engines and parts which are suitable for NEV, as well as the manufacture of other NEV-compatible gasoline engines.

Save as disclosed in the above announcement, there were no other significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures by the Group during the year ended 31 December 2021.

***Capital commitment***

As at 31 December 2021, the Group had capital commitments of approximately RMB561.08 million (31 December 2020: RMB250.54 million), among which contracted capital commitments amounted to approximately RMB345.74 million (31 December 2020: RMB43.22 million), which is primarily related to capital expenditure in respect of acquisition of property, plant and equipment, capital injection to an associate and new engine development.

\* for identification purposes only

## A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

## 1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the unaudited pro forma financial information (the “**Unaudited Pro Forma Financial Information**”) of Xincheng China Power Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”), comprising the unaudited pro forma consolidated statement of financial position as at 31 December 2021 and the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 and related notes. The Unaudited Pro Forma Financial Information of the Group has been prepared on the basis of the notes set out below for the purpose of illustrating the effects of (i) the proposed disposal of the Disposed Assets as defined in note 4 in relation to the asset purchase agreement signed between the Company’s subsidiaries as illustrated in note 4 as vendors and BMW Brilliance Automotive Ltd. (“**BBA**”) as purchaser and (ii) the proposed acquisition of the right-of-use assets in relation to the Company’s subsidiary, Xincheng Engine (Shenyang) Co., Limited (“**Shenyang Xincheng**”), as a lessee and BBA as a lessor entered into the equipment lease agreement relating to the leasing back of the Disposed Assets (collectively the “**Proposed Transactions**”) on the financial position of the Group as at 31 December 2021 as if the Proposed Transactions had been completed on 31 December 2021, and the Group’s financial performance for the year ended 31 December 2021 as if the Proposed Transactions had been completed on 1 January 2021.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guidance 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants, for the purpose of illustrating the financial effect of Proposed Transactions as if the Proposed Transactions had been completed on 31 December 2021 and 1 January 2021 and because of its hypothetical nature, it may not purport to present the true picture of the financial position as at 31 December 2021 or any future date, and financial performance for the year ended 31 December 2021 or for any future period.

The Unaudited Pro Forma Financial Information is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2021 and the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 which have been extracted from the published annual report of the Group for the year ended 31 December 2021, after making pro forma adjustments relating to the Proposed Transactions that are (i) directly attributable to the Proposed Transactions and not relating to future events or decisions; and (ii) factually supportable, is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 December 2021 and other financial information included elsewhere in this circular.

2. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL  
POSITION OF THE GROUP AS AT 31 DECEMBER 2021

|  | The Group<br>RMB\$'000<br>(Note 1) | Pro forma adjustments<br>RMB\$'000<br>(Note 3)      RMB\$'000<br>(Note 4) |                  | The Group<br>upon<br>Proposed<br>Transactions<br>RMB\$'000 |
|--|------------------------------------|---|------------------|--|
| <b>ASSETS AND LIABILITIES</b>                |                                    |   |                  |  |
| <b>Non-current assets</b>                    |                                    |   |                  |  |
| Property, plant and equipment                | 1,880,317                          | (72,129)  | (102,071)        | 1,706,117  |
| Prepaid lease payments                       | 121,816                            | –   | –                | 121,816  |
| Intangible assets                            | 646,684                            | –   | –                | 646,684  |
| Deferred tax assets                          | 19,550                             | –   | –                | 19,550   |
| Loan to a shareholder                        | 14,784                             | –   | –                | 14,784   |
| Other assets                                 | 213,696                            | –   | –                | 213,696  |
|  | <u>2,896,847</u>                   | <u>(72,129)</u>   | <u>(102,071)</u> | <u>2,722,647</u>   |
| <b>Current assets</b>                        |                                    |   |                  |  |
| Inventories                                  | 471,886                            | –   | –                | 471,886  |
| Trade and other receivables                  | 144,142                            | –   | –                | 144,142  |
| Receivables measured at<br>FVTOCI            | 12,950                             | –   | –                | 12,950   |
| Amounts due from related<br>companies        | 150,662                            | –   | –                | 150,662  |
| Tax recoverable                              | 1,548                              | –   | –                | 1,548  |
| Pledged/restricted bank deposits             | 273,937                            | –   | –                | 273,937  |
| Bank balances and cash                       | 12,853                             | 305,589   | (164,120)        | 154,322  |
|  | <u>1,067,978</u>                   | <u>305,589</u>  | <u>(164,120)</u> | <u>1,209,447</u>   |
| <b>Current liabilities</b>                   |                                    |   |                  |  |
| Trade and other payables                     | 822,755                            | –   | –                | 822,755  |
| Amounts due to related<br>companies          | 81,675                             | (14,631)  | –                | 67,044   |
| Borrowings due within one year               | 1,068,232                          | (500,000)   | –                | 568,232  |
| Lease liabilities                            | 2,095                              | 113,318   | (113,318)        | 2,095  |
|  | <u>1,974,757</u>                   | <u>(401,313)</u>  | <u>(113,318)</u> | <u>1,460,126</u>   |
| <b>Net current liabilities</b>               | <u>(906,779)</u>                   | <u>706,902</u>  | <u>(50,802)</u>  | <u>(250,679)</u>   |
| <b>Total assets less current liabilities</b> | <u>1,990,068</u>                   | <u>634,773</u>  | <u>(152,873)</u> | <u>2,471,968</u>   |
| <b>Non-current liabilities</b>               |                                    |   |                  |  |
| Borrowings due after one year                | 172,060                            | –   | –                | 172,060  |
| Lease liabilities                            | 2,157                              | 612,743   | –                | 614,900  |
| Deferred income                              | 25,235                             | –   | –                | 25,235   |
|  | <u>199,452</u>                     | <u>612,743</u>  | <u>–</u>         | <u>812,195</u>   |
| <b>Net assets</b>                            | <u>1,790,616</u>                   | <u>22,030</u>   | <u>(152,873)</u> | <u>1,659,773</u>   |
| <b>Capital and reserve</b>                   |                                    |   |                  |  |
| Share capital                                | 10,457                             | –   | –                | 10,457   |
| Reserves                                     | 1,780,159                          | 22,030  | (152,873)        | 1,649,316  |
| <b>Total equity</b>                          | <u>1,790,616</u>                   | <u>22,030</u>   | <u>(152,873)</u> | <u>1,659,773</u>   |



3. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR  
LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31  
DECEMBER 2021

|   | <b>The Group</b>   | <b>Pro forma adjustments</b> |                  | <b>The Group<br/>upon<br/>Proposed<br/>Transactions</b> |
|---|--------------------|------------------------------|------------------|---|
|   | <i>RMB\$'000</i>   | <i>RMB\$'000</i>             | <i>RMB\$'000</i> | <i>RMB\$'000</i>  |
|   | <i>(Note 1)</i>    | <i>(Note 3)</i>              | <i>(Note 4)</i>  |   |
| <b>Revenue</b>  | 1,462,777          | –                            | –                | 1,462,777   |
| Cost of sales   | <u>(1,386,340)</u> | <u>–</u>                     | <u>(120,951)</u> | <u>(1,507,291)</u>                                      |
| Gross profit/(loss)   | <u>76,437</u>      | <u>–</u>                     | <u>(120,951)</u> | <u>(44,514)</u>   |
| Other income  | 109,204            | 7,399                        | –                | 116,603   |
| Impairment losses, net  | (298,877)          | –                            | –                | (298,877)   |
| Other gains and losses  | 5,074              | –                            | –                | 5,074   |
| Selling and distribution<br>expenses  | (17,388)           | –                            | –                | (17,388)  |
| Administrative expenses   | (199,129)          | –                            | –                | (199,129)   |
| Finance costs   | (58,365)           | 14,631                       | (31,922)         | (75,656)  |
| Other expenses  | <u>(16,616)</u>    | <u>–</u>                     | <u>–</u>         | <u>(16,616)</u>   |
| <b>Loss before tax</b>  | (399,660)          | 22,030                       | (152,873)        | (530,503)   |
| Income tax credit   | <u>6,887</u>       | <u>–</u>                     | <u>–</u>         | <u>6,887</u>  |
| <b>Loss for the year</b>  | <u>(392,773)</u>   | <u>22,030</u>                | <u>(152,873)</u> | <u>(523,616)</u>  |
| <b>Other comprehensive loss</b>   |                    |                              |                  |   |
| Fair value loss on receivables<br>measured at fair value<br>through other comprehensive<br>income | <u>(161)</u>       | <u>–</u>                     | <u>–</u>         | <u>(161)</u>  |
| <b>Total comprehensive loss<br/>for the year</b>  | <u>(392,934)</u>   | <u>22,030</u>                | <u>(152,873)</u> | <u>(523,777)</u>  |

**4. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

1. The amounts are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2021 and the audited consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021, as set out in the published annual report of the Group for the year ended 31 December 2021.
2. The Company's subsidiaries, Mianyang Xincheng Engine Co., Ltd. ("**Mianyang Xincheng**"), Mianyang Xincheng Engine Co., Ltd. Shenyang Branch ("**Mianyang Xincheng Shenyang Branch**") and Shenyang Xincheng as vendors and BBA as purchaser entered into an asset purchase agreement relating to the disposal (the "**Disposal**") of the production lines, supporting equipment and facilities relating to the production of crankshaft and connecting rod (the "**Disposed Assets**"). After the Disposal, Shenyang Xincheng as a lessee and BBA as a lessor entered into the equipment lease agreement (the "**Lease Agreement**") relating to the leasing back of the Disposed Assets (the "**Lease**").

The Proposed Transactions are regarded as a sale and leaseback transaction. Under the Lease Agreement, the Group has no purchase option during or at the end of the leasing period. BBA will obtain and keep the control of the Disposed Assets subsequent to the completion date of the Disposal and during or at the end of the leasing period because BBA has ability to direct the use of, and obtain substantially all of the remaining benefits from the Disposed Assets. Accordingly, the Disposal shall be accounted for a sales arrangement in accordance with Hong Kong Financial Reporting Standards 15 "Revenue from Contracts with Customers" and the Lease shall be recognised in the form of an right-of-use assets and a lease liability in accordance with Hong Kong Financial Reporting Standard 16 "Lease" ("**HKFRS 16 Leases**") in the Unaudited Pro Forma Financial Information of the Group. As such, the Group as a seller-lessee measures the right-of-use assets arising from the leasing back and recognises the gain or loss that relates to the rights transferred to the buyer-lessor.

3. The adjustment represents the estimated gain on the Disposal as if the Disposal had taken place on 31 December 2021 and the amount has been settled on 31 December 2021.

Calculation of the estimated gain on the Disposal:

|  | <i>Note</i>   | <i>RMB'000</i>      |
|--|---------------|---------------------|
| Net consideration  | <i>3(i)</i>   | 819,349             |
| <i>Less:</i>   |               |                     |
| Carrying value of the Disposed Assets                            | <i>3(ii)</i>  | (633,518)           |
| Estimated transaction cost directly attributable to the Disposal | <i>3(iii)</i> | <u>(13,760)</u>     |
| Estimated gain on the Disposal, before the Lease                 |               | <u>172,071</u>      |
| Considering the leaseback effect of the Lease                    |               |                     |
| <i>Add:</i> Amount of right-of-use assets retained by the Group  | <i>3(iv)</i>  | 561,389             |
| <i>Less:</i> Lease liabilities assumed by the Group              | <i>3(iv)</i>  | <u>(726,061)</u>    |
| Estimated gain on the Disposal                                   |               | <u><u>7,399</u></u> |

*Notes:*

- (i) The amount represents the sales consideration of the Disposal of approximately RMB925,864,000 in accordance with the assets purchase agreement net of the value-added tax of approximately RMB106,515,000 which is payable at the completion date of the Disposal.
- (ii) The amount of the carrying value of the Disposed Assets is extracted from the audited consolidated statement of financial position as at 31 December 2021.
- (iii) The amount represents stamp duty and estimated other direct costs in relation to the Disposal which is directly attributable expenses estimated by the directors of the Company. For the purpose of the Unaudited Pro Forma Financial Information, it is assumed that the Group will settle the directly attributable expenses by cash at the completion date. The adjustment is not expected to have a continuing effect on the Group's consolidated statement of profit or loss and other comprehensive income.

- (iv) The adjustment represents the recognition of right-of-use assets of the Company of approximately RMB561,389,000 (right-of-use assets retained through the leaseback of the Disposed Assets as a proportion of its previous carrying value) and lease liabilities of approximately RMB726,061,000 (discounted value of the total lease payments of approximately RMB823,239,000 which represents total lease payment of RMB930,260,000, net of the value-added tax of approximately RMB107,021,000 under the measurement requirements of HKFRS 16 Leases) respectively in relation to the Lease for a term of 66 months with a renewal option in which the Group/Company considered that no extension option would be exercised at the lease commencement date as if it had taken place on 1 January 2021.

The actual financial effects of the Lease may be different from the amount described above and would be subject to total consideration receivable from the Disposal and the incremental borrowing rate adopted in the calculation of the Lease and are therefore subject to change upon the actual completion of the Proposed Transactions.

- (v) The net cash consideration of approximately RMB305,589,000 will be received from the Disposal which represent the difference between the sales consideration of the Disposal of approximately RMB925,864,000, reduced by (i) the value-added tax of approximately RMB106,515,000; (ii) the estimated transaction cost directly attributable to the Disposal of approximately RMB13,760,000 incurred upon completion of the Disposal; and (iii) the repayment of the borrowing from BBA as illustrated in note 29 in the published annual report of the Group for the year ended 31 December 2021 (the “**Borrowing**”) amounted to RMB500,000,000.
- (vi) Interest expense and the corresponding payable arising from the Borrowing, which is bearing interest at 4.6% per annum and repayable on demand, is subject to change upon the actual completion of the Disposal. For the purpose of the Unaudited Pro Forma Financial Information, it is assumed that the Group had repaid the Borrowing on 1 January 2021 and therefore, an adjustment has been made to reverse the accrued interest expense of approximately RMB14,631,000 that has been made for the year ended 31 December 2021 as illustrated in note 27 in the published annual report of the Group for the year ended 31 December 2021. The reversal of the accrued interest expense is not expected to have a continuing effect on the Group.

The actual financial effects of the Disposal may be different from the amount described above and would be subject to total consideration receivables and are therefore subject to change upon the actual completion of the Disposal. The estimated gain on the disposal is not expected to have a continuing effect on the Group.

4. The adjustment represents the depreciation of approximately RMB102,071,000 charged on right-of-use assets for the year and the reduce of the amount of lease liabilities by approximately RMB113,318,000, which taken into account of the payment of lease liabilities of approximately RMB164,120,000 netted off with the recognised finance charge on lease liabilities of approximately RMB31,922,000 and the value-added tax of approximately RMB18,880,000 respectively as if the lease had taken place on 1 January 2021. The depreciation expense, VAT expense and the finance charge on lease liabilities are expected to have a continuing effect on the Group among the lease period.
5. For the purpose of the Unaudited Pro Forma Financial Information, upon the completion of the Disposal, it is assumed that the estimated gain on the Disposal is of a capital nature and not subjected to Hong Kong profits tax. The estimated gain on the Disposal will trigger the Enterprise Income Tax (“EIT”) but it is assumed to be offset by the tax effect of utilisation of the tax losses not recognised in prior years held by the subsidiaries of the Company, Mianyang Xincheng and Mianyang Xincheng Shenyang Branch. Therefore, there is no assessable profit arising from the Disposal.
6. No adjustment has been made to reflect any operating results or other transactions of the Group entered into subsequent to 31 December 2021 for the preparation of the unaudited pro forma consolidated statement of financial position of the Group as at 31 December 2021 or the unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2021.

**B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF  
THE GROUP**

*The following is the text of a report, prepared for the purpose of incorporation in this circular, received from our reporting accountants, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong.*

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

26 July 2022

**TO THE DIRECTORS OF XINCHEN CHINA POWER HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Xincheng China Power Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2021 and the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021, and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out on pages II-1 to II-7 of the Company’s circular date 26 July 2022 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-7.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Transactions on the Group’s consolidated financial position as at 31 December 2021 as if the Proposed Transactions had taken place at 31 December 2021 and consolidated financial performance as if the Proposed Transactions had taken place at 1 January 2021, respectively. As part of this process, information about the Group’s consolidated financial position has been extracted by the Directors from the Group’s annual audited consolidated financial statements for the year ended 31 December 2021, on which an auditor’s report has been published.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Proposed Transactions on the unadjusted financial information of the Group as if the Proposed Transactions had occurred or the Proposed Transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Transactions as at 31 December 2021 and 1 January 2021 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of Listing Rules.

**Grant Thornton Hong Kong Limited**

Certified Public Accountants

11th Floor

Lee Garden Two

28 Yun Ping Road

Causeway Bay

Hong Kong

26 July 2022

Ng Ka Kong

Practising Certificate No.: P06919

*The following information is extracted from the full valuation report received from Beijing Huaya Zhengxin Assets Appraisal Co., Ltd, a qualified valuer in the PRC, in connection with its valuation of the Disposed Assets as at 30 June 2021 for the purpose of inclusion in this circular.*

**EXTRACT OF THE ASSET VALUATION REPORT ON  
THE MARKET VALUE OF THE EQUIPMENT-RELATED  
ASSETS RELATING TO THE CRANKSHAFT AND  
CONNECTING ROD PRODUCTION LINES  
PROPOSED TO BE TRANSFERRED BY  
MIANYANG XINCHEN ENGINE CO., LTD.\*  
(綿陽新晨動力機械有限公司), ITS BRANCH AND  
ITS WHOLLY-OWNED SUBSIDIARY**

Huaya Zhengxin Ping Bao Zi [2021] No. A01-0029

**Mianyang Xincheng Engine Co., Ltd.\* (綿陽新晨動力機械有限公司)(the “Company”):**

Beijing Huaya Zhengxin Assets Appraisal Co., Ltd\* (北京華亞正信資產評估有限公司) was engaged by the Company to carry out a valuation of the market value of the equipment-related assets of the crankshaft and connecting rod production lines, which are proposed to be transferred by the Company, its branch and its wholly-owned subsidiary, as at the valuation date by carrying out necessary valuation procedures using the cost approach on the bases of continuing operation and open market pursuant to the relevant laws, administrative regulations and asset valuation standards.

The subject of this valuation is the value of the equipment-related assets of the crankshaft and connecting rod production lines, which are proposed to be transferred by Mianyang Xincheng Engine Co., Ltd.\* (綿陽新晨動力機械有限公司), its branch and its wholly-owned subsidiary, as at the valuation date.

The scope of valuation includes the equipment-related assets of the crankshaft and connecting rod production lines with an original book value of 1,412,125,700 yuan and a net book value of 715,034,500 yuan proposed to be transferred by Mianyang Xincheng Engine Co., Ltd.\* (綿陽新晨動力機械有限公司), its branch and its wholly-owned subsidiary.

The valuation date was 30 June 2021 and the type of value is market value.

The results of the cost approach have been adopted as the conclusion of value of this asset valuation report. Details of the conclusion of value are set out as follows:

### Summary Table of the Conclusion of Valuation

Valuation date: 30 June 2021

Unit: RMB'0,000

| Name of Title Holder   | Book Value<br>A  | Appraised<br>Value<br>B | Change<br>C = B - A | % of Increase<br>D = C/A × 100 |
|--|------------------|-------------------------|---------------------|--------------------------------|
| Mianyang Xincheng Engine Co., Ltd.*<br>(綿陽新晨動力機械有限公司)                          | 51,877.26        | 58,728.35               | 6,851.09            | 13.21                          |
| Mianyang Xincheng Engine Co., Ltd.<br>Shenyang Branch* (綿陽新晨動力<br>機械有限公司瀋陽分公司) | 7,672.33         | 7,864.90                | 192.57              | 2.51                           |
| Xincheng Engine (Shenyang) Co.,<br>Limited* (新晨動力機械(瀋陽)<br>有限公司)               | 11,953.85        | 15,341.58               | 3,387.73            | 28.34                          |
| <b>Total</b>   | <b>71,503.45</b> | <b>81,934.85</b>        | <b>10,431.40</b>    | <b>14.59</b>                   |

This valuation report has been prepared for the sole purpose of providing a reference value for the economic activities set out herein. The conclusion of value is valid for one year after the valuation date. If there are any material changes in the conditions of the assets and the market as compared with those as at the valuation date, the client shall engage a valuation institution to update or re-evaluate the appraised value.

This valuation report is subject to the following special matters and users of the report should give due consideration to the impacts of these matters on the conclusion of value:

- (I) Pursuant to the PBOC Credit Information Center Movable Property Guarantee Registration Certificate-Initial Registration (《中國人民銀行徵信中心動產擔保登記證明—初始登記》) provided by the client, Mianyang Xincheng Engine Co., Ltd.\* (綿陽新晨動力機械有限公司), Mianyang Xincheng Engine Co., Ltd. Shenyang Branch\* (綿陽新晨動力機械有限公司瀋陽分公司) and Xincheng Engine (Shenyang) Co., Limited\* (新晨動力機械(瀋陽)有限公司) pledged most of the equipment-related assets within the scope of valuation to BMW Brilliance Automotive Ltd.\* (華晨寶馬汽車有限公司). The pledged assets include a total of 539 items with an original book value of 1,354,880,900 yuan and a net book value of 680,138,100 yuan. For a detailed breakdown of the pledged assets, please refer to the “Fixed Assets-Breakdown of Appraised Machinery and Equipment”. The conclusion of value of this valuation has not made any allowances for the impact of this matter.

- (II) In the course of this valuation, the asset valuers have not conducted any technical examination of the technical parameters and performance of the equipment as at the valuation date. The asset valuers have made judgement based on on-site inspections and the assumption that the relevant technical information and operating records provided by the title holders are true and valid.
- (III) The attention of the users of the report is drawn to the fact that the conclusion of value of this valuation of equipment-related assets has not made any allowances for any value-added tax or any relevant costs to be incurred by the title holders in transferring the assets.

**The above information is extracted from the text of the asset valuation report, which should be read for details of this valuation engagement and a proper understanding of the conclusion of value.**

**TEXT OF THE ASSET VALUATION REPORT ON  
THE MARKET VALUE OF THE EQUIPMENT-RELATED  
ASSETS RELATING TO THE CRANKSHAFT AND  
CONNECTING ROD PRODUCTION LINES  
PROPOSED TO BE TRANSFERRED BY  
MIANYANG XINCHEN ENGINE CO., LTD.\*  
(綿陽新晨動力機械有限公司), ITS BRANCH AND  
ITS WHOLLY-OWNED SUBSIDIARY**

Huaya Zhengxin Ping Bao Zi [2021] No. A01-0029

**Mianyang Xincheng Engine Co., Ltd.\* (綿陽新晨動力機械有限公司)(the “Company”):**

Beijing Huaya Zhengxin Assets Appraisal Co., Ltd\* (北京華亞正信資產評估有限公司) was engaged by the Company to carry out a valuation of the market value of the equipment-related assets of the crankshaft and connecting rod production lines, which are proposed to be transferred by the Company, its branch and its wholly-owned subsidiary, as at 30 June 2021 by carrying out necessary valuation procedures using the cost approach on the principles of independence, objectivity and fairness pursuant to the requirements of laws, administrative regulations and asset valuation standards. The report of the asset valuation is set out as follows:

**I. OVERVIEW OF THE CLIENT, THE TITLE HOLDERS AND OTHER USERS OF  
THE ASSET VALUATION REPORT AS AGREED IN THE ASSET VALUATION  
ENGAGEMENT CONTRACT**

The client of this asset valuation engagement and the first title holder is Mianyang Xincheng Engine Co., Ltd.\* (綿陽新晨動力機械有限公司), the second title holder is Mianyang Xincheng Engine Co., Ltd. Shenyang Branch\* (綿陽新晨動力機械有限公司瀋陽分公司), and the third title holder is Xincheng Engine (Shenyang) Co., Limited\* (新晨動力機械(瀋陽)有限公司).

**(I) Overview of the Client and the First Title Holder**

**1. Basic Corporate Information**

Company Name : Mianyang Xincheng Engine Co., Ltd.\* (綿陽新晨動力機械有限公司)(hereinafter referred to as “Mianyang Xincheng”)

|                             |   |   |
|-----------------------------|---|---|
| Registered address          | : | No. 69 Xingchang Road, High-Tech Industrial Development Zone, Mianyang, Sichuan Province  |
| Legal representative        | : | Han Song  |
| Registered capital          | : | US\$100,000,000   |
| Paid-in capital             | : | US\$100,000,000   |
| Nature of enterprise        | : | Company with limited liability (wholly-owned by a foreign corporation)  |
| Date of establishment       | : | 23 March 1998   |
| Term of operation           | : | 23 March 1998 to 22 March 2048  |
| Principal scope of business | : | The design and manufacture of internal combustion engines and other powertrain components, sales of in-house products and provision of relevant after-sales services. (Business requiring approval(s) by law shall be carried out after obtaining the approval(s) from the relevant government authority(ies).) |

## **2. Company Profile**

Mianyang Xincheng is a wholly-owned subsidiary of Xincheng China Power Holdings Limited (新晨中國動力控股有限公司), a Hong Kong-listed company, the ultimate controlling shareholders of which are Sichuan Province Yibin Wuliangye Group Co., Ltd.\* (四川省宜賓五糧液集團有限公司) and Huachen Automotive Group Holdings Company Limited\* (華晨汽車集團控股有限公司), both of which in turn hold the same amount of shares (i.e. 31.2%) of Xincheng China Power Holdings Limited (新晨中國動力控股有限公司) through their respective subsidiaries.

## **3. Significant Accounting Policies Adopted**

- (1) Accounting System: The Accounting Standards for Business Enterprises issued in 2006 by the Ministry of Finance of the People's Republic of China are adopted.
- (2) Accounting Year: The accounting year is a calendar year between 1 January and 31 December based on the Gregorian calendar;
- (3) Basis of Accounting and Principle of Measurement: The basis of accounting and principle of measurement are the accrual basis and the historical cost basis, respectively;

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**APPENDIX III VALUATION REPORT OF THE DISPOSED ASSETS**

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(4) Presentation Currency: The presentation currency is Renminbi;

(5) Fixed Assets

Depreciation of fixed assets commences in the month after the assets are ready for their intended use and is recognised over the useful lives using the straight-line method. The useful live, estimated net residual value and annual depreciation rate of each category of fixed assets are as follows:

| <b>Category</b>          | <b>Estimated<br/>net residual<br/>value<br/>(%)</b> | <b>Useful life<br/>(year)</b> | <b>Annual<br/>depreciation<br/>rate<br/>(%)</b> |
|--------------------------|---|-------------------------------|---|
| Production equipment     | 5   | 10                            | 2.38-19   |
| Transportation equipment | 5   | 5                             | 19  |
| Electronic equipment     | 5   | 5                             | 19  |

## **(II) Overview of the Second Title Holder**

### **1. Basic Corporate Information**

|                             |   |   |
|-----------------------------|---|---|
| Company Name                | : | Mianyang Xincheng Engine Co., Ltd. Shenyang Branch* (綿陽新晨動力機械有限公司瀋陽分公司)(hereinafter referred to as “Mianyang Xincheng (Shenyang Branch)”)                       |
| Registered address          | : | No. 12 8th Street, Shenyang Economic and Technological Development Zone   |
| Legal representative        | : | Wang Yunxian  |
| Nature of enterprise        | : | Branch Company  |
| Date of establishment       | : | 29 November 2013  |
| Term of operation           | : | 29 November 2013 to 22 March 2048   |
| Principal scope of business | : | The design and manufacture of internal combustion engines and powertrain components, sales of in-house products and provision of relevant after-sales services. |

## 2. *Company Profile*

Mianyang Xinchun (Shenyang Branch) was established in November 2013 with a registered address at No. 12 8th Street, Shenyang Economic and Technological Development Zone and a principal scope of business of the design and manufacture of internal combustion engines and powertrain components, sales of in-house products and provision of relevant after-sales services.

## 3. *Significant Accounting Policies Adopted*

- (1) Accounting System: The Accounting Standards for Business Enterprises issued in 2006 by the Ministry of Finance of the People's Republic of China are adopted.
- (2) Accounting Year: The accounting year is a calendar year between 1 January and 31 December based on the Gregorian calendar;
- (3) Basis of Accounting and Principle of Measurement: The basis of accounting and principle of measurement are the accrual basis and the historical cost basis, respectively;
- (4) Presentation Currency: The presentation currency is Renminbi;
- (5) Fixed Assets

Depreciation of fixed assets commences in the month after the assets are ready for their intended use and is recognised over the useful lives using the straight-line method. The useful live, estimated net residual value and annual depreciation rate of each category of fixed assets are as follows:

| <b>Category</b>          | <b>Estimated<br/>net residual<br/>value<br/>(%)</b> | <b>Useful life<br/>(year)</b> | <b>Annual<br/>depreciation<br/>rate<br/>(%)</b> |
|--------------------------|---|-------------------------------|---|
| Production equipment     | 5   | 10                            | 2.38-19   |
| Transportation equipment | 5   | 5                             | 19  |
| Electronic equipment     | 5   | 5                             | 19  |



**(III) Overview of the Third Title Holder****1. Basic Corporate Information**

|                             |   |  |
|-----------------------------|---|--|
| Company Name                | : | Xinchen Engine (Shenyang) Co., Limited* (新晨動力機械(瀋陽)有限公司)(hereinafter referred to as “Shenyang Xinchen”)  |
| Registered address          | : | No. 19 13th Street, Shenyang Economic and Technological Development Zone   |
| Legal representative        | : | Wang Yunxian   |
| Registered capital          | : | 253,000,000 yuan   |
| Paid-in capital             | : | 253,000,000 yuan   |
| Nature of enterprise        | : | Company with limited liability (wholly-owned by a foreign invested corporation)  |
| Date of establishment       | : | 22 October 2008  |
| Term of operation           | : | 22 October 2008 to 21 October 2028   |
| Principal scope of business | : | Shipping and warehousing arrangement; supervision of loading, unloading, container consolidation and deconsolidation; international multimodal transportation; international courier service; customs declaration, declaration for inspection and quarantine, insurance arrangement and relevant import and export services (except for items restricted or prohibited by laws and regulations); international freight forwarding agency business; general cargo shipping; property leasing; property management; the design, manufacture and sales of vehicle engine and components and auto parts. (Business requiring approval(s) by law shall be carried out after obtaining the approval(s) from the relevant government authority(ies).) |

## 2. *Company Profile*

Shenyang Xincheng (formerly known as 中床國際物流集團瀋陽有限公司) became a wholly-owned subsidiary of Mianyang Xincheng when Mianyang Xincheng acquired the 100% shareholding of Shenyang Xincheng by way of capital contribution in August 2014. It was renamed and registered by the administration for industry and commerce as Xincheng Engine (Shenyang) Co., Limited\* (新晨動力機械(瀋陽)有限公司) in September 2015 with a principal scope of business of supplying crankshafts and connecting rods to BBA.

## 3. *Significant Accounting Policies Adopted*

- (1) Accounting System: The Accounting Standards for Business Enterprises issued in 2006 by the Ministry of Finance of the People's Republic of China are adopted.
- (2) Accounting Year: The accounting year is a calendar year between 1 January and 31 December based on the Gregorian calendar;
- (3) Basis of Accounting and Principle of Measurement: The basis of accounting and principle of measurement are the accrual basis and the historical cost basis, respectively;
- (4) Presentation Currency: The presentation currency is Renminbi;
- (5) Fixed Assets

Depreciation of fixed assets commences in the month after the assets are ready for their intended use and is recognised over the useful lives using the straight-line method. The useful life, estimated net residual value and annual depreciation rate of each category of fixed assets are as follows:

| <b>Category</b>          | <b>Estimated<br/>net residual<br/>value<br/>(%)</b> | <b>Useful life<br/>(year)</b> | <b>Annual<br/>depreciation<br/>rate<br/>(%)</b> |
|--------------------------|---|-------------------------------|---|
| Production equipment     | 5   | 10                            | 9.5   |
| Transportation equipment | 5   | 5                             | 19  |
| Electronic equipment     | 5   | 5                             | 19  |

**(IV) Relationship between the Client and the Title Holders**

The first title holder is the client, the second title holder is a branch company of the client and the third title holder is a wholly-owned subsidiary of the client.

**(V) Overview of Other Users of the Asset Valuation Report as Agreed in the Asset Valuation Engagement Contract**

This asset valuation report is intended to be used solely by the client, i.e. Mianyang Xincheng. The asset valuation engagement contract does not provide for any other users to use this report.

**II. PURPOSE OF VALUATION**

Mianyang Xincheng, its branch and its wholly-owned subsidiary proposed to transfer the equipment-related assets of certain crankshaft and connecting rod production lines. As such, the market price of the equipment-related assets of such crankshaft and connecting rod production lines proposed to be transferred by Mianyang Xincheng, its branch and its wholly-owned subsidiary as at the valuation date has to be appraised so as to provide a reference value for such economic activities.

Mianyang Xincheng has approved such economic activities by adopting the Resolution of the 103rd Meeting of the Operation and Management Committee Agreeing to the Proposal to Transfer the Equipment-Related Assets of the Crankshaft and Connecting Rod Production Lines (《第103次經營管理委員會會議同意<關於曲軸、連桿生產線等設備資產的轉讓方案>的決議》).

**III. SUBJECT AND SCOPE OF VALUATION****(I) Subject of Valuation**

Based on the purpose of this valuation, the subject of this valuation is the value of the equipment-related assets of the crankshaft and connecting rod production lines, which are proposed to be transferred by Mianyang Xincheng, its branch and its wholly-owned subsidiary, as at the valuation date.

**(II) Scope of Valuation**

1. The scope of valuation includes the equipment-related assets of the crankshaft and connecting rod production lines with an original book value of 1,412,125,700 yuan and a net book value of 715,034,500 yuan proposed to be transferred by Mianyang Xincheng Engine Co., Ltd.\* (綿陽新晨動力機械有限公司), its branch and its wholly-owned subsidiary. The particulars are as follows:

*Unit: RMB*

| No. | Name of the Title Holder            | Original Book Value     | Net Book Value        |
|-----|-------------------------------------|-------------------------|-----------------------|
| 1   | Mianyang Xincheng                   | 906,204,786.65          | 518,772,617.25        |
| 2   | Mianyang Xincheng (Shenyang Branch) | 196,255,540.13          | 76,723,348.99         |
| 3   | Shenyang Xincheng                   | 309,665,391.94          | 119,538,483.86        |
|     | <b>Total</b>                        | <b>1,412,125,718.72</b> | <b>715,034,450.10</b> |

These equipment-related assets mainly include automatic material feeding systems, computer numerical controlled (CNC) lathes, sprocket making machines, induction hardening equipment, polishing equipment, CNC milling machines, automatic countersinking equipment, cylindrical grinders, rough boring and heavy boring cutter – bolt hole processing machines and other equipment acquired between 2014 and 2021.

As at the valuation date, the equipment-related assets of the crankshaft and connecting rod production lines within the scope of this valuation were located in the production sites of Shenyang Xincheng. They were all operating as normal to produce crankshafts and connecting rods exclusively for BBA.

**2. *Types and Quantities of Off-Balance Sheet Assets Declared by the Enterprises***

All assets reported by the enterprises within the scope of valuation are all on-balance sheet assets.

**3. *Types, Quantities and Book Values (or Appraised Values) of Assets that Refer to the Conclusions of Reports Issued by Other Institutions***

This valuation does not refer to the conclusion of any reports issued by other institutions.

#### IV. TYPE OF VALUE

Based on the purpose of this valuation, market value has been chosen as the type of value of the subject of valuation.

The market value refers to the estimated amount for which the subject of valuation should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction, wherein both parties had acted rationally and without compulsion.

#### V. VALUATION DATE

The valuation date was 30 June 2021.

The valuation date was determined by the client. In determining the valuation date, the following principal factors have been considered:

The valuation date should be as close to the completion date for the purpose of the valuation as possible for the conclusion of value to serve the purpose of the valuation in the most practical manner.

#### VI. BASIS OF VALUATION

The basis of valuation followed by this valuation includes the bases of the specific economic activities, laws, standards, title and pricing as follows:

##### (I) Basis of the Economic Activities

The Resolution of the 103rd Meeting of the Operation and Management Committee Agreeing to the Proposal to Transfer the Equipment-Related Assets of the Crankshaft and Connecting Rod Production Lines (《第103次經營管理委員會會議同意〈關於曲軸、連桿生產線等設備資產的轉讓方案〉的決議》).

##### (II) Basis of Laws and Regulations

1. The Company Law of the People's Republic of China (《中華人民共和國公司法》)(4th amendment at the 6th meeting of the Standing Committee of the 13th National People's Congress on 26 October 2018);
2. The Asset Valuation Law of the People's Republic of China (《中華人民共和國資產評估法》)(adopted at the 21st meeting of the Standing Committee of the 12th National People's Congress on 2 July 2016);
3. The Civil Code of the People's Republic of China (《中華人民共和國民法典》)(Order No. 45 of the President, 2020);

4. The Law of the People's Republic of China on the State-Owned Assets of Enterprises (《中華人民共和國企業國有資產法》)(adopted at the 5th meeting of the Standing Committee of the 11th National People's Congress on 28 October 2008);
5. The Measures for Financial Supervision and Administration of the Asset Appraisal Sector (《資產評估行業財政監督管理辦法》)(Order No. 86 of the Ministry of Finance of the People's Republic of China);
6. The Interim Regulation on the Supervision and Administration of State-owned Assets of Enterprises (《企業國有資產監督管理暫行條例》)(Order No. 378 of the State Council of the People's Republic of China, 13 May 2003);
7. The Administrative Measures for State-owned Asset Assessment (《國有資產評估管理辦法》)(Order No. 91 of the State Council, 1991);
8. The Provisions Concerning Some Issues in the Administration of the Appraisal of State-owned Assets (《國有資產評估管理若干問題的規定》)(Order No. 14 of the Ministry of Finance, 2001);
9. The Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (《企業國有資產評估管理暫行辦法》)(Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council, 25 August 2005);
10. The Notice on Certain Matters Concerning Strengthening the Administration of Appraisal of State-owned Assets of Enterprises (《關於加強企業國有資產評估管理工作有關問題的通知》)(Guozhiwei Chanquan [2006] No. 274);
11. The Circular on Matters Related to Review of State-owned Assets Appraisal Reports of Enterprises (《關於企業國有資產評估報告審核工作有關事項的通知》)(Guozifa Chanquan [2009] No. 941);
12. The Guidelines for the Filing for Recordation of the Assessment Projects of State-Owned Assets of Enterprises (《企業國有資產評估項目備案工作指引》)(Guozifa Chanquan [2013] No. 64);
13. The Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises (《企業國有資產交易監督管理辦法》)(Order No. 32 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance, 24 June 2016);

14. The Interim Regulations of the People's Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例》)(Order No. 691 of the State Council) (amended for the second time by the Decision of the State Council on Repealing the Interim Regulations on Business Tax of the People's Republic of China and Amending the Interim Regulations of the People's Republic of China on Value-added Tax (《國務院關於廢止〈中華人民共和國營業稅暫行條例〉和修改〈中華人民共和國增值稅暫行條例〉的決定》)) adopted at the 191st executive meeting of the State Council on 30 October 2017 and effective on 19 November 2017);
15. The Notice on Several Issues Concerning the National Implementation of Value-added Tax Reform (《關於全國實施增值稅轉型改革若干問題的通知》)(Cai Shui [2008] No. 170);
16. The Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (《財政部國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》)(Cai Shui [2016] No. 36);
17. The Notice of the Ministry of Finance and the State Administration of Taxation on Pilot Policies of Levying Value-added Tax in Lieu of Business Tax for Construction Services and Other Sectors (《財政部稅務總局關於建築服務等營改增試點政策的通知》)(Cai Shui [2017] No. 58);
18. The Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》)(Announcement No. 39 of 2019 of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs);
19. Other relevant laws, regulations, notices and documents.

### (III) Basis of Valuation Standards

1. The Basic Standards for Asset Valuation (《資產評估基本準則》)(Cai Zi [2017] No. 43);
2. The Code of Ethics for Asset Valuation (《資產評估職業道德準則》)(Zhong Ping Xie [2017] No. 30);
3. The Practice Standards for Asset Valuation – Valuation Procedures (《資產評估執業準則—評估程序》)(Zhong Ping Xie [2018] No. 36);
4. The Practice Standards for Asset Valuation – Valuation Report (《資產評估執業準則—評估報告》)(Zhong Ping Xie [2018] No. 35);

5. The Practice Standards for Asset Valuation – Asset Valuation Engagement Contract (《資產評估執業準則—資產評估委託合同》)(Zhong Ping Xie [2017] No. 33);
6. The Practice Standards for Asset Valuation – Asset Valuation Files (《資產評估執業準則—資產評估檔案》)(Zhong Ping Xie [2018] No. 37);
7. The Practice Standards for Asset Valuation – Machinery and Equipment (《資產評估執業準則—機器設備》)(Zhong Ping Xie [2017] No. 39);
8. The Guidelines for Valuation Reports of State-owned Assets of Enterprises (《企業國有資產評估報告指南》)(Zhong Ping Xie [2017] No. 42);
9. The Guidelines for Quality Control of Business of Asset Valuer (《資產評估機構業務質量控制指南》)(Zhong Ping Xie [2017] No. 46);
10. The Guiding Opinions on Types of Value under Asset Valuation (《資產評估價值類型指導意見》)(Zhong Ping Xie [2017] No. 47);
11. The Guiding Opinions on Legal Ownership of Asset Valuation Target (《資產評估對象法律權屬指導意見》)(Zhong Ping Xie [2017] No. 48);
12. The Practice Standards for Asset Valuation – Asset Valuation Methods (《資產評估執業準則—資產評估方法》)(Zhong Ping Xie [2019] No. 35).

**(IV) Basis of Title**

1. Equipment purchase contracts and payment receipts;
2. Custom declaration documents of imported equipment;
3. Other relevant evidence of title.

**(V) Basis of Pricing**

1. The Customs Import and Export Tariff of the People’s Republic of China (《中華人民共和國海關進出口稅則》)(2021);
2. The Manual of Common Data and Parameters Used in Asset Valuation (Second Edition)(《資產評估常用數據與參數手冊(第二版)》)(Beijing Science and Technology Press (北京科學技術出版社));
3. Renminbi benchmark exchange rates as at 30 June 2021 announced by the State Administration of Foreign Exchange;



4. The Monthly Loan Prime Rate (LPR) Announced by the People's Bank of China (《中國人民銀行每月公佈的貸款市場報價利率(LPR)》);
5. Information collected and noted by the valuers through due diligence review and on-site inspections;
6. Other information related to this asset valuation.

**(VI) Other References**

1. The Asset Valuation Engagement Contract;
2. The asset valuation declaration breakdowns (資產評估申報明細表) provided by the enterprises;
3. The Description of Matters Related to the Asset Valuation (《關於進行資產評估有關事項說明》) provided by the enterprises;
4. The database of Beijing Huaya Zhengxin Assets Appraisal Co., Ltd\* (北京華亞正信資產評估有限公司).

**VII. METHOD OF VALUATION**

**(I) Selection of Valuation Method**

According to the standards for asset valuation, valuation methods are the approaches and methods adopted to appraise the market value of an appraised asset. These approaches and methods are mainly based on economic principles such as price equilibrium, expected income and replacement costs. Major approaches and methods of asset valuation include three basic approaches, namely the market approach, the income approach and the cost approach, and their respective associated methods. The specific valuation method should be selected appropriately after considering the purpose of valuation together with factors related to the asset valuation, such as the type of value, the specific nature of the subject of valuation and limitations to available data and information.

The cost approach is a valuation approach that determines the existing value of the subject of valuation as the total cost required to acquire or construct the subject of valuation in brand new condition under the existing circumstances, less physical, functional and economical depreciation of the subject of valuation.

The market approach, also known as the market price comparison approach, is an asset valuation approach that determines the value of the appraised asset by comparing the similarities and differences between the appraised asset and similar assets that are recently sold and then adjusting the market price of similar assets.

The income approach is a common valuation approach that determines the value of the appraised asset by calculating the expected future income from the appraised asset and then discounting the income to its present value.

Reasons considered in the selection of valuation method are as follows:

- (1) The market approach is not suitable because available comparable transactions are not sufficient since most of the appraised assets are imported equipment and the second hand market of the appraised equipment at the place in which the title holders are located is not mature;
- (2) The income approach is not suitable because the incomes, costs and expenses in future years cannot be estimated since the historical incomes, costs and expenses of a particular production line or an individual machine or equipment are not available as the title holders do not record incomes, costs and expenses based on any particular production line or any individual machine or equipment;
- (3) The replacement cost method determines the value of the appraised asset as the total cost required to replace the appraised asset under the existing circumstances, less accrued depreciation of the appraised asset. Based on the purpose and available information of this valuation as well as the specific nature of the subject of valuation, the cost approach has been selected for this valuation.

## **(II) Replacement Cost Method**

Based on the purpose and the type of value of this valuation as well as specific nature and available information of the equipment, the replacement cost method has been selected to carry out this valuation on the continuing operation and market value bases.

The replacement cost method may also be applied by firstly estimating how new the appraised asset is as compared with the brand new condition, i.e. the newness rate, and then multiplying the total cost by the newness rate. The resulting product will be the appraised value.

Formula for Valuation: Appraised Value = Replacement Cost x Newness Rate

### **1) Determination of Replacement Cost**

Replacement Cost = Equipment Purchase Price + Shipping and Miscellaneous Fees + Installation and Commissioning Fees + Equipment Infrastructure Costs + Preliminary and Other Expenses + Cost of Capital - Deductible Value-Added Tax

(1) *Determination of replacement costs of machinery and equipment*

A. Equipment Purchase Price

a. Common Domestic Equipment

For essential large equipment, the purchase price is mainly determined based on the market price as at the valuation date obtained from the manufacturers or with reference to the recent contractual prices of similar equipment as of the valuation date;

For small equipment, the purchase price is mainly determined by obtaining market quotations as at the valuation date;

For equipment without market quotation, the purchase price is mainly determined by making adjustments for the domestic consumer price index.

b. Imported Equipment

For imported equipment, the equipment purchase price is determined based on the imported equipment's cost, insurance and freight (CIF) price (which is in turn determined based on quotations from the equipment's manufacturers or relevant information in the custom declaration forms) and the benchmark exchange rates issued by the State Administration of Foreign Exchange as at the valuation date, plus custom duties, sales tax, value-added tax, bank financial charges and international trade handling fees.

Purchase Price of Imported Equipment = CIF Price x Benchmark Exchange Rate as at the Valuation Date + Custom Duty + Sales Tax + Value-Added Tax + Bank Financial Charges + International Trade Handling Fees

For imported equipment without market quotation, the purchase price is mainly determined by making adjustments for the consumer price index of the country of origin.

**B. Shipping and Miscellaneous Fees**

Shipping and miscellaneous fees refer to the costs of shipping the equipment from the place of origin to the installation site. Shipping and miscellaneous rates are determined based on the equipment's purchase price as well as other factors such as the equipment's shipping distance, weight, size and methods of transportation. If the shipping and miscellaneous fees of the equipment are included in its purchase price, shipping and miscellaneous fees will not be determined individually.

Formula for Shipping and Miscellaneous Fees:

Shipping and Miscellaneous Fees = Equipment Purchase Price x  
Shipping and Miscellaneous Rate

**C. Installation and Commissioning Fees**

Installation and commissioning fees are estimated based on the equipment purchase price (including tax). For small equipment that doesn't need installation, installation fee is omitted.

Installation and Commissioning Fees = Equipment Purchase Price x  
Installation and Commissioning Rate

**D. Equipment Infrastructure Costs**

Equipment infrastructure costs are estimated based on the equipment purchase price (including tax). For small equipment that doesn't need infrastructure, infrastructure costs are omitted.

Equipment Infrastructure Costs = Equipment Purchase Price x  
Equipment Infrastructure Rate

**E. Preliminary and Other Expenses**

Preliminary and other expenses include, among other things, the project's construction management fees, surveying and design fees, construction supervision fees, tendering process fees and environmental evaluation fees. These fees are calculated based on the total project investment made by the title holders and rates stipulated by the industry or national or local governments.

## F. Cost of Capital

The cost of capital is calculated based on the sum of the equipment purchase price, shipping and miscellaneous fees, installation and commissioning fees, equipment infrastructure costs and preliminary and other expenses during the reasonable construction period of the project on a straight-line basis with reference to the Loan Prime Rate (LPR) announced by the People's Bank of China on the valuation date.

Formula for Cost of Capital:

$$\text{Cost of Capital} = (\text{Equipment Purchase Price} + \text{Shipping and Miscellaneous Fees} + \text{Installation And Commissioning Fees} + \text{Equipment Infrastructure Costs} + \text{Preliminary and Other Expenses}) \times \text{Reasonable Construction Period} \times \text{Loan Prime Rate (LPR) as at the Valuation Date} \times \frac{1}{2}$$

In general, cost of capital is omitted for projects with a construction period of less than 6 months.

## G. Deductible Value-Added Tax of Equipment Purchase Price

Pursuant to the Interim Regulations of the People's Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例》)(Order No. 538), the Notice on Several Issues Concerning the National Implementation of Value-added Tax Reform (《關於全國實施增值稅轉型改革若干問題的通知》)(Cai Shui [2008] No. 170) and the Notice on the Input Tax Credit of Fixed Assets (《關於固定資產進項稅額抵扣問題的通知》)(Cai Shui [2009] No. 113) promulgated by the State Council, for total replacement price that meets the condition for value-added tax credit, the relevant value-added tax can be deducted. In addition, pursuant to the Announcement on Relevant Policies for Deepening the Reform of Value-Added Tax (《關於深化增值稅改革有關政策的公告》)(Announcement No. 39 of 2019 of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs), the original applicable tax rates of 16% and 10% have been changed to 13% and 9%, respectively.

$$\text{Deductible Value-Added Tax} = \text{Equipment Purchase Price}/1.13 \times 13\% + \text{Shipping and Miscellaneous Fees}/1.09 \times 9\% + \text{Installation and Commissioning Fees}/1.09 \times 9\% + \text{Equipment Infrastructure Costs}/1.09 \times 9\% + \text{Preliminary and Other Expenses (Deductible Value-Added Tax Items)}/1.06 \times 6\%$$

(2) *Determination of replacement cost of electronic equipment*

The replacement cost is determined based on the prices in the local electronic equipment market and recent online transaction prices of the same equipment model as at the valuation date, less deductible value-added tax,

i.e. Replacement Cost = Pre-Tax Purchase Price

2) Determination of Integrated Newness Rates

(1) Determination of newness rates of machinery and equipment

For common and special equipment, the remaining useful lives are mainly determined as the difference between economic useful lives and ages, while the inspected newness rates are determined through on-site inspections of the equipment's operating conditions, technical conditions and repair and maintenance conditions. Then, the integrated newness rates will be determined using the following formula.

Integrated Newness Rate = Remaining Useful Life/(Remaining Useful Life + Age) x 40% + Inspected Newness Rate x 60%

In determining the newness rates, the newness rate of normally operating equipment is generally not less than 15%.

(2) Determination of newness rates of electronic equipment

For small equipment such as electronics and air conditioning equipment, the integrated newness rates are mainly determined based on their economic useful lives. The formula is as follows:

Useful Life Newness Rate = (Economic Useful Life – Age)/ Economic Useful Life x 100%

3) Determination of Appraised Value

Appraised Value of Equipment = Replacement Cost of Equipment x Integrated Newness Rate

**VIII. IMPLEMENTATION PROCESS AND STATUS OF VALUATION PROCEDURES**

The valuers of Beijing Huaya Zhengxin Assets Appraisal Co., Ltd\* (北京華亞正信資產評估有限公司) carried out the valuation of the assets of the subject of valuation between 1 September 2021 and 15 September 2021. Major implementation processes and status of the valuation procedures are as follows:

**(I) Acceptance of Engagement and Signing of Engagement Contract**

The engagement was accepted and the asset valuation engagement contract was signed after negotiations with the client on the specific subject matters of the valuation engagement as well as a comprehensive analysis and evaluation of our professional competency, independence and business risks.

**(II) Preliminary Preparation**

1. A valuation engagement team was set up by selecting the project manager and personnel and an asset valuation plan was formulated with reference to the characteristics of the appraised assets and the overall timeline of this engagement.
2. Specific asset valuation declaration breakdowns (資產評估申報明細表) and relevant asset questionnaires (資產調查表) were prepared by determining lists of necessary information according to the characteristics of the appraised assets in the engagement. The title holders were guided through the breakdowns as well as the provision of information for the valuation so as to ensure the quality of the declared information.
3. In order to ensure the quality and maximise the efficiency of the valuation engagement, members of the engagement team received training to understand the specific arrangements under the asset valuation plan, background of the economic activities underlying the engagement, characteristics of the assets involved in the subject of valuation, general valuation approach and specific operational requirements.

**(III) On-Site Inspection**

The valuers conducted the necessary examination and verification of the assets involved in the subject of valuation as well as the necessary inspections of the conditions of the assets of the title holders between 1 September 2021 and 4 September 2021.

**1. Asset Verification**

- (1) The relevant personnel of the title holders were instructed to complete the asset valuation declaration form (資產評估申報表) and information sheet (資料清單) provided by the valuation institution and collect and prepare evidence of title for each asset within the scope of valuation in a detailed and accurate manner based on their own asset examination.
- (2) The asset valuation declaration forms (資產評估申報表) completed by the title holders were reviewed and revised initially and checked against the relevant corporate financial records in order to identify any incomplete, wrong or unclear entries, if any, understand the identified issues and demand timely correction of the asset valuation declaration forms (資產評估申報表) by the title holder.
- (2) Initial Review and Revision of Asset Valuation Breakdowns (資產評估明細表) Completed by Title Holders

Through the review of relevant information, the valuers understood the details of the specific assets within the scope of valuation, and then carefully examined and checked all asset valuation breakdowns (資產評估明細表) for any incomplete, wrong or unclear entries. They also assessed whether any items were missing from the asset valuation breakdowns (資產評估明細表) based on their experience and understanding of the relevant information. The title holders were promptly notified of the identified matters so as to correct the asset valuation breakdowns (資產評估明細表).

- (3) On-Site Inspections. Based on the type, quantity and location of the assets within the scope of valuation, the valuers conducted stock-taking and on-site inspections in respect of the quantity, quality and operating conditions of the assets as at the valuation date pursuant to the relevant requirements under the standards for asset valuation with the help of the relevant personnel of the title holders. They also comprehensively studied and verified the subject of valuation as well as the appraised assets by ways of interview, verification, supervision of counting, inspection and so on according to the nature and characteristics of each type of assets.
- (4) To supplement, revise and improve the asset valuation declaration forms (資產評估申報表), the valuers further revised the forms and reconciled the accounts, forms and facts based on the results of the on-site inspections and thorough communication with the relevant personnel of the title holders.



- (5) Asset valuation professionals addressed the legal title of the subject of valuation by verifying and examining the originals of agreements, contracts and other important legal documents related to the ownership status of the subject of valuation, collecting information about titles, and understanding and verifying whether the assets within the scope of valuation are subject to any charges, guarantees or litigations.

## **2. Due Diligence Review**

In order to comprehensively and adequately understand the existing conditions of the subject of valuation, the valuers conducted the necessary due diligence review through conducting interviews, searches, enquiries and so on. Main contents of the due diligence review were as follows:

- (1) The conditions of the assets of the title holders;
- (2) Previous valuations and transactions conducted by the title holders;
- (3) Other relevant matters requiring investigation.

## **(IV) Collecting Information**

1. The asset valuation professionals collected information necessary for the asset valuation engagement according to the specific conditions of the appraised items. Such information included information of the subject and scope of valuation provided by the client and the title holders, as well as relevant information obtained from government authorities, professional bodies and the market. The collected information was then analyzed, summed up and arranged, as necessary, to form the basis for the estimation of value and preparation of the asset valuation report.
2. The asset valuation professionals acknowledged the valuation declaration breakdowns (評估申報明細表) and relevant key information provided by the client and the title holders and examined and verified important information used in the valuation through observation, probing, review of written documents, on-site inspections, making enquiries, scrutiny and so on in order to ensure that all information used are justifiable and reliable.

## **(V) Finalising Estimation**

The valuers finalised the estimation by carrying out analysis, calculation and judgement based on the relevant formulas and parameters under the selected valuation method according to the specific conditions of each type of assets. A preliminary asset valuation report was then prepared based on the preliminary conclusion of value resulting from the deduction and analysis of the final estimation.

**(VI) Internal Audit and Issuance of Report**

In accordance with the provisions of the standards for asset valuation and our internal quality control system, the project manager submitted the finished draft of the valuation report after completing an initial review to our quality control department for further review. Before issuing the asset valuation report after the completion of our internal review, without prejudice to the independent judgement on the conclusion of value, the relevant contents of the asset valuation report were communicated to the client or other relevant parties as agreed by the client, an independent analysis of the communication process was conducted, and appropriate adjustments based on the reasonable opinions communicated were made. After completing the aforementioned asset valuation procedures, the company issued and delivered the formal asset valuation report to the client.

**IX. VALUATION ASSUMPTIONS****(I) General Assumptions**

1. Assumption about transaction: It is assumed that all appraised assets will be subject to the transaction such that the asset valuers shall conduct the valuation by simulating the market based on the same conditions for the transaction of the appraised assets;
2. Assumption about open market: It is assumed that the assets can be bought and sold freely in a sufficiently competitive market and that their prices depend on the value of the assets as judged by independent buyers and sellers under the supply and demand conditions of the given market. An open market refers to a sufficiently competitive market with plenty of buyers and sellers. In such a market, buyers and sellers have equal status and have opportunities and time to obtain sufficient market information, and transactions between buyers and sellers are conducted under voluntary, rational, non-compulsory or unrestricted conditions;
3. Assumption about in situ use of the assets: It is assumed that the assets will continue to be used at the location in which they are currently installed whether or not in the existing way and for the existing purposes;
4. It is assumed that there will not be any material changes in the relevant existing national laws, regulations, policies and macro-economic conditions nor the political, economic and social conditions of the regions in which the parties to this transaction are located;
5. It is assumed that the assets will be used continuously under the existing conditions as at the valuation date;

6. It is assumed that there will not be any material changes in the relevant tax bases, tax rates and government levies of the title holders after the valuation date;
7. It is assumed that the title holders will strictly comply with all relevant laws and regulations;
8. It is assumed that there will not be any force majeure and unforeseeable factors that may have a material adverse effect on the title holders after the valuation date.

**(II) Special Assumptions**

1. It is assumed that the accounting policies to be adopted by the title holders after the valuation date will in all material aspects be consistent with those adopted at the time of the preparation of this valuation report;
2. It is assumed that all relevant information provided by the client and the title holders in relation to this valuation are true, complete, legal and valid;

The conclusion of value of this valuation report is valid based on the above assumptions as at the valuation date. The undersigned asset valuers and the valuation institution shall not be liable to revise the conclusion of value in case of any material changes in the above assumptions.

**X. Conclusion of Value**

Subject to continuing operation, the book value and appraised value of the equipment-related assets within the scope of valuation as at the valuation date are 715,034,500 yuan and 819,348,500 yuan, respectively, representing an increase of 104,314,000 yuan or 14.59%.

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**APPENDIX III VALUATION REPORT OF THE DISPOSED ASSETS**

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Details of the conclusion of value are set out in the following summary table:

**Summary Table of the Conclusion of Valuation**

**Valuation date: 30 June 2021**

*Unit: RMB'0,000*

| Name of Title Holder                   | Book Value       | Appraised Value  | Change           | % of Increase |
|--|------------------|------------------|------------------|---------------|
|  | A                | B                | C = B - A        | D = C/A × 100 |
| Mianyang Xincheng                      | 51,877.26        | 58,728.35        | 6,851.09         | 13.21         |
| Mianyang Xincheng<br>(Shenyang Branch) | 7,672.33         | 7,864.90         | 192.57           | 2.51          |
| Shenyang Xincheng                      | 11,953.85        | 15,341.58        | 3,387.73         | 28.34         |
| <b>Total</b>                           | <b>71,503.45</b> | <b>81,934.85</b> | <b>10,431.40</b> | <b>14.59</b>  |

For the detailed valuation results under the cost approach, please refer to the valuation breakdown.

**XI. DESCRIPTIONS OF SPECIAL MATTERS**

This valuation engagement is subject to the following special matters:

- (I) Pursuant to the Guiding Opinions for Asset Valuers Concerning the Legal Ownership of Valuation Target (《資產評估師關注評估對象法律權屬指導意見》), the title holders and relevant parties shall provide, and ensure the truthfulness, completeness and legality of, information about the legal titles of the subject of valuation in accordance with the laws. The asset valuers are responsible for making necessary verification and disclosure of such information and its sources and do not make any representation as to the legal titles of the subject of valuation. It is beyond the scope of practice of asset valuers to confirm or express an opinion on the legal titles of the subject of valuation.

**(II) Charges, Guarantees and Leases**

Pursuant to the PBOC Credit Information Center Movable Property Guarantee Registration Certificate-Initial Registration (《中國人民銀行徵信中心動產擔保登記證明—初始登記》) provided by the client, Mianyang Xincheng, Mianyang Xincheng (Shenyang Branch) and Shenyang Xincheng pledged most of the equipment-related assets within the scope of valuation to BMW Brilliance Automotive Ltd.\* (華晨寶馬汽車有限公司). The pledged assets include a total of 539 items with an original book value of 1,354,880,900 yuan and a net book value of 680,138,100 yuan. For a detailed breakdown of the pledged assets, please refer to the “Fixed Assets-Breakdown of Appraised Machinery and Equipment”. The conclusion of value of this valuation has not made any allowances for the impact of this matter.

**(III) Matters Imposing Limitations on the Valuation Procedures, Measures Taken in Response to Them and Their Impacts on the Conclusion of Value**

In the course of this valuation, the asset valuers have not conducted any technical examination of the technical parameters and performance of the equipment as at the valuation date. The asset valuers have made judgement based on on-site inspections and the assumption that the relevant technical information and operating records provided by the title holders are true and valid.

**(IV) Other Matters Requiring Disclosure**

The attention of the users of the report is drawn to the fact that the conclusion of value of this valuation of equipment-related assets has not made any allowances for any value-added tax or any relevant costs to be incurred by the title holders in transferring the assets.

The users of the report should give due consideration to the impacts of these special matters on the conclusion of value.

**XII. LIMITATIONS ON THE USE OF THE VALUATION REPORT****(I) Scope of use**

1. The user of this asset valuation report is the client.
2. This asset valuation report shall only be used for the purpose and objective of valuation as set out herein.
3. This valuation report is for the use of the users of the valuation report as set out herein only.

4. The conclusion of value is valid for one year after the valuation date. If there are any material changes in the conditions of the assets and the market during the valid period as compared with those as at the valuation date, the client shall engage a valuation institution to update or re-evaluate the appraised value.
  5. Without the written permission of the client, the valuation institution and asset valuation professionals shall not provide or disclose the contents of the asset valuation report to any third party, except as otherwise provided by laws and administrative regulations.
  6. Without the consent of the valuation institution, the contents of the asset valuation report shall not be extracted, quoted or disclosed to the mass media, except as otherwise provided by laws and administrative regulations or agreed upon by the relevant parties.
- (II) The asset valuation institution and its asset valuation professionals shall not be held liable in the event that the client or other users of the asset valuation report fail to use the asset valuation report in accordance with the provisions of laws, administrative regulations and scope of use as set out in the asset valuation report;
- (III) Except for the client, other users of the asset valuation report as agreed in the asset valuation engagement contract and users of the asset valuation report as stipulated by laws and administrative regulations, no other institutions or individuals can become the users of the asset valuation report;
- (IV) It is the responsibility of the users of the asset valuation report to properly understand the conclusion of value. The conclusion of value does not purport to represent the price that could be realised from the subject of valuation and should not be regarded as a guarantee of the price that could be realised from the subject of valuation;
- (V) This valuation report shall be valid for use only after it is affixed with the signature of an asset valuer and the seal of the valuation institute;
- (VI) This valuation report shall be submitted to the state-owned assets supervision and administration department for review and filing before its official use.

### **XIII. DATE OF THE ASSET VALUATION REPORT**

The date of the asset valuation report is 1 November 2021.

\* *for identification purposes only*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

#### *The Company*

| Name of Director   | Long position/<br>short position | Nature of interests                                 | Number and<br>class of<br>Shares | Approximate<br>percentage of<br>shareholding<br>(Note 3) |
|--|----------------------------------|---|----------------------------------|--|
| Mr. Wu Xiao An<br>(also known as<br>Mr. Ng Siu On)<br>(Note 1) | Long position                    | Beneficial owner                                    | 8,320,041<br>ordinary            | 0.65%  |
|  | Long position                    | Trustee and interest in a<br>controlled corporation | 33,993,385<br>ordinary           | 2.65%  |
| Mr. Wang Yunxian<br>(Note 2)                                   | Long position                    | Beneficial owner                                    | 6,471,143<br>ordinary            | 0.50%  |
|  | Long position                    | Trustee and interest in a<br>controlled corporation | 33,993,385<br>ordinary           | 2.65%  |

*Notes:*

- (1) Mr. Wu Xiao An is a trustee of the discretionary trust (which holds 33,993,385 Shares for the beneficiaries) under the share incentive scheme established by Lead In Management Limited (“**Lead In**”) in 2011 (the “**Incentive Scheme**”) and holds 50% interests in Lead In. Accordingly, Mr. Wu is deemed or taken to be interested in approximately 2.65% of the issued share capital of the Company.
- (2) Mr. Wang Yunxian is a trustee of the discretionary trust (which holds 33,993,385 Shares for the beneficiaries) under the Incentive Scheme and holds 50% interests in Lead In. Accordingly, Mr. Wang is deemed or taken to be interested in approximately 2.65% of the issued share capital of the Company.
- (3) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules.



**(b) Interests of substantial shareholders of the Company**

So far as is known to the Directors, as at the Latest Practicable Date, each of the following persons (other than a Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of any class of shares carrying rights to vote in all circumstances at general meetings of any other member of the Group:

| Name of Shareholder   | Nature of interests                  | Number and class of Shares  | Approximate percentage of shareholding<br>(Note 6) |
|---|--------------------------------------|-----------------------------|--|
| Brilliance Investment Holdings Limited<br>("Brilliance Investment")   | Beneficial owner                     | 400,000,000 (L)<br>Ordinary | 31.20%   |
| Brilliance China (Note 1)   | Interest in a controlled corporation | 400,000,000 (L)<br>Ordinary | 31.20%   |
| Huachen Automotive Group Holdings Company Limited*<br>(華晨汽車集團控股有限公司)<br>("Huachen") (Note 2)  | Interest in a controlled corporation | 400,000,000 (L)<br>Ordinary | 31.20%   |
| Xinhua Investment Holdings Limited<br>("Xinhua Investment")   | Beneficial owner                     | 400,000,000 (L)<br>Ordinary | 31.20%   |
| Miayang Xinhua Internal Combustion Engine Joint Stock Company Limited*<br>(綿陽新華內燃機股份有限公司)<br>("Xinhua Combustion Engine")<br>(Note 3) | Interest in a controlled corporation | 400,000,000 (L)<br>Ordinary | 31.20%   |
| Sichuan Yibin Pushi Group Co., Ltd.<br>("Pushi Group") (Note 4)   | Interest in a controlled corporation | 400,000,000 (L)<br>Ordinary | 31.20%   |
| Sichuan Province Yibin Wuliangye Group Co., Ltd.*<br>(四川省宜賓五糧液集團有限公司)<br>("Wuliangye") (Note 5)                                       | Interest in a controlled corporation | 400,000,000 (L)<br>Ordinary | 31.20%   |

*Notes:*

- (1) Brilliance Investment is wholly-owned by Brilliance China and Brilliance China is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.

- (2) Brilliance China is beneficially owned as to approximately 30.43% by Huachen and Huachen is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.
- (3) Xinhua Investment is a direct wholly-owned subsidiary of Xinhua Combustion Engine and Xinhua Combustion Engine is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (4) Xinhua Combustion Engine is a direct non wholly-owned subsidiary of Pushi Group and Pushi Group is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (5) Pushi Group is a direct wholly-owned subsidiary of Wuliangye and Wuliangye is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (6) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at the Latest Practicable Date.

*(L) – Long Position*

*\* for identification purposes only*

Save as disclosed above, as at the Latest Practicable Date, no other persons (other than a Director and chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 10% or more of any class of shares carrying rights to vote in all circumstances at general meetings of any other member of the Group.

### **3. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

#### 4. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

- (a) save as disclosed in this circular, none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2021, being the date of the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group; and
- (b) save as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement was subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Group as a whole.

#### 5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by the members of the Group within two years preceding the Latest Practicable Date and are, or may be, material:

- (a) the support agreement (支持協議) dated 11 May 2021 between BBA as lender and Mianyang Xinchun, Mianyang Xinchun (Shenyang Branch) and Shenyang Xinchun as borrowers (collectively, the “**Borrowers**”) in relation to, among others, the Loan, as supplemented and revised by a supplemental agreement thereto dated 2 July 2021;
- (b) the memorandum of understanding for asset purchase (資產購買諒解備忘錄) dated 11 May 2021 between BBA and the Borrowers relating to, among others, the Loan and the Disposal, further particulars of which are set out in the circular of the Company dated 30 July 2021;
- (c) the investment agreement dated 27 August 2021 and entered into between Beijing CHJ Automotive Technology Co., Ltd\* (北京車和家汽車科技有限公司) and Mianyang Xinchun in relation to the formation of Sichuan Li Xinchun Technology Co., Ltd\* (四川理想新晨科技有限公司) with a total registered capital of RMB629,935,800;
- (d) the Asset Purchase Agreement; and
- (e) the Lease Agreement.

\* for identification purposes only

**6. LITIGATION**

So far as is known to the Directors, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was pending or threatened against any member of the Group as at the Latest Practicable Date.

**7. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and his respective close associates (as defined in the Listing Rules) was interested directly or indirectly in a business, apart from his interest in the Company, which competes or is likely to compete with the business of the Group.

**8. EXPERTS' CONSENTS AND QUALIFICATIONS**

The following are the qualifications of the professional advisers who have given opinion or advice which is contained in this circular:

| <b>Name</b>                                      | <b>Qualification</b>                    |
|--|---|
| Grant Thornton Hong Kong Limited                 | Certified Public Accountants, Hong Kong |
| Beijing Huaya Zhengxin Assets Appraisal Co., Ltd | qualified valuer in the PRC             |

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and all reference to its name in the form and context in which they appear.

As at the Latest Practicable Date, none of the above experts was beneficially interested in the share capital of any member of the Group nor did any of them have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did any of them have any interest, either direct or indirect, in any assets which have been, since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired, disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

**9. GENERAL**

- (a) The registered office of the Company is at Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at Suites 1602-05, Chater House, 8 Connaught Road Central, Hong Kong.
- (c) The branch share registrars and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The company secretary of the Company is Ms. Ngai Ka Yan, who is an associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute.
- (e) Save and except for the extract of the valuation report of the Disposed Assets as set out in Appendix IV whose original text is in Chinese, the English text of this circular shall prevail over the Chinese text in case of any inconsistency.

**10. DOCUMENTS ON DISPLAY**

Copies of the following documents will be on display on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.xinchenpower.com](http://www.xinchenpower.com) from the date of this circular up to and including the date of the Extraordinary General Meeting:

- (a) the material contracts as referred to in the paragraph headed "5. Material contracts" in this appendix;
- (b) the report on the audited pro forma financial information of the Group issued by Grant Thornton Hong Kong Limited as set out in Appendix II to this circular;
- (c) the full text of the valuation report dated 1 November 2021 issued by Beijing Huaya Zhengxin Assets Appraisal Co., Ltd on the Disposed Assets, an extract of which is set out in Appendix III; and
- (d) the written consents from Grant Thornton Hong Kong Limited and Beijing Huaya Zhengxin Assets Appraisal Co., Ltd, respectively, as referred to in the paragraph headed "8. Experts' Consents and Qualifications" in this Appendix.

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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# POWER XINCHEN

## 新 晨 動 力

### XINCHEN CHINA POWER HOLDINGS LIMITED

### 新晨中國動力控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1148)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Xincheng China Power Holdings Limited (the “**Company**”) will be held at Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Friday, 12 August 2022 at 9:00 a.m., for the purposes of considering and, if thought fit, passing, with or without modification, the following resolution as ordinary resolution of the Company:

#### **ORDINARY RESOLUTION**

#### **“THAT**

- (a) the asset purchase agreement (資產購買協議)(the “**Original AP Agreement**”) (a copy of which has been produced to this meeting marked “A” and initialled by the chairman of this meeting for the purpose of identification) dated 25 May 2022 and entered into between Mianyang Xincheng Engine Co., Ltd.\* (綿陽新晨動力機械有限公司)(an indirect wholly-owned subsidiary of the Company) (“**Mianyang Xincheng**”), Xincheng Engine (Shenyang) Co., Limited\* (新晨動力機械(瀋陽)有限公司)(an indirect wholly-owned subsidiary of the Company) (“**Shenyang Xincheng**”) and Mianyang Xincheng Engine Co., Ltd. Shenyang Branch\* (綿陽新晨動力機械有限公司瀋陽分公司)(the branch company of Mianyang Xincheng) (“**Mianyang Xincheng (Shenyang Branch)**”), together with Mianyang Xincheng and Shenyang Xincheng, the “**Sellers**”) as vendors and BMW Brilliance Automotive Ltd.\* (華晨寶馬汽車有限公司)(“**BBA**”) as purchaser in relation to, among others, the disposal by the Sellers to BBA of the production facilities owned by the Sellers relating to the production of crankshaft and connecting rod (the “**Disposed Assets**”), together with the transactions contemplated thereunder, be and are hereby approved;
- (b) the supplementary agreement to asset purchase agreement (資產購買協議之補充協議)(the “**Supplementary Agreement**”) (a copy of which has been produced to this meeting marked “B” and initialled by the chairman of this meeting for the purpose of identification) dated 25 May 2022 and entered into between the Sellers and BBA, which is supplementary to the Original AP Agreement, together with the transactions contemplated thereunder, be and are hereby approved;

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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- (c) the equipment lease agreement (設備租賃協議)(the “**Lease Agreement**”) (a copy of which has been produced to this meeting marked “C” and initialled by the chairman of this meeting for the purpose of identification) dated 25 May 2022 and entered into between BBA as lessor and Shenyang Xinchun as lessee in relation to the lease of the Disposed Assets, together with the transactions contemplated thereunder, be and are hereby approved; and
- (d) any director of the Company (the “**Director**”) be and are hereby authorized, for and on behalf of the Company, to do all such things and exercise all powers which he considers necessary or desirable or expedient in connection with the Original AP Agreement, the Supplementary Agreement, the Lease Agreement or otherwise in connection with the implementation of the transactions contemplated thereunder, including without limitation the execution, amendment, supplement, delivery, waiver, submission and implementation of the Original AP Agreement, the Supplementary Agreement and the Lease Agreement and any further documents or agreements, and any Director and the company secretary of the Company or two Directors be authorised to affix the common seal of the Company (if required) on any document or deed as they consider appropriate.”

By order of the board of directors  
**Xinchun China Power Holdings Limited**  
**Ngai Ka Yan**  
*Company Secretary*

Hong Kong, 26 July 2022

*Registered Office:*

Windward 3  
Regatta Office Park  
PO Box 1350  
Grand Cayman KY1-1108  
Cayman Islands

*Head office and principal place of business:*

Suites 1602-05  
Chater House  
8 Connaught Road Central  
Hong Kong

\* *for identification purposes only*

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. A shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxies to attend and to vote on a poll in his stead. On a poll, votes may be given either personally (or in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if shareholders so wish.
5. The Hong Kong branch register of members of the Company will be closed from Tuesday, 9 August 2022 to Friday, 12 August 2022, both days inclusive, during which period no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 9 August 2022 or their proxies or duly authorised corporate representatives are entitled to attend the meeting. In order to qualify for attending the meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 8 August 2022.
6. The ordinary resolution set out in this notice of extraordinary general meeting will be put forward to shareholders to vote by way of a poll.
7. In view of the pandemic of COVID-19, the following precautionary measures will be implemented at the meeting (or any adjournment thereof) to protect our shareholders from the risk of infection:
  - (i) Compulsory body temperature check will be conducted for all shareholders, proxies and other attendees at the entrance of the meeting venue. Any person with a body temperature above the reference range recommended by the Department of Health of The Government of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong Government**") from time to time, or is exhibiting flu-like symptoms, may be denied entry into the meeting venue or be required to leave the meeting venue.
  - (ii) Each attendee may be asked to complete and submit a health declaration form prior to entry into the meeting venue. Anyone who responds positively to any of the questions in the health declaration form may be denied entry into the meeting venue or be required to leave the meeting venue.



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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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- (iii) All attendees will be required to wear surgical face mask before they are permitted to attend, and during their attendance of, the meeting. Please note that no masks will be provided at the meeting venue and attendees should bring and wear their own masks.
- (iv) No refreshment and drinks will be provided and no gift will be distributed at the meeting.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue.

The Company reminds all shareholders that physical attendance in person at the meeting is not necessary for the purpose of exercising voting rights. Shareholders may appoint the Chairman of the meeting as their proxy to vote on the relevant resolution at the meeting by completing and returning the proxy form instead of attending the meeting in person.

The Company will keep the evolving COVID-19 situation under review and may change the precautionary measures or implement additional measures which it will announce closer to the date of the meeting, if and when necessary.

*As at the date of this notice, the board of directors of the Company comprises two executive directors, Mr. Wu Xiao An (also known as Mr. Ng Siu On) (Chairman) and Mr. Wang Yunxian (Chief Executive Officer); two non-executive directors, Mr. Han Song and Mr. Yang Ming; and three independent non-executive directors, Mr. Chi Guohua, Mr. Wang Jun, and Mr. Huang Haibo.*